Supreme Court, U.S.
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No. 10-

In the Supreme Court of the United States

AVID IDENTIFICATION SYSTEMS, INC.,
Petitioner,

v.

THE CRYSTAL IMPORT CORPORATION,
DATAMARS SA AND DATAMARS, INC.,
Respondent.

Petition for a Writ of Certiorari to the
United States Court of Appeals for the Federal Circuit

PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED

This appeal involves the doctrine of fraud on the Patent Office. This Court has held that patents procured by fraud are unenforceable. However, this Court has long limited the class of people who may be accused of such fraud to inventors, attorneys communicating with the Patent Office, or others who submit evidence or argument to the Patent Office urging it to issue the patent. This limit makes sense because those are the people who know enough to understand the invention and what needs to be disclosed to the Patent Office about the invention.

The Federal Circuit, in this case, vastly expanded that judicially-created doctrine by rendering a patent unenforceable based on the inaction of someone who was not an inventor, attorney, or person that submitted any evidence or argument to the Patent Office related to patentability. The omitted information would have had no bearing on the Patent Office's decision, as a jury later found that very information did not render the patent invalid.

The questions presented are as follows:

(1) Whether a patent may be rendered unenforceable based solely on the failure to disclose prior art by an individual who was not involved in the preparation or submission of any evidence or argument to the Patent Office to convince it to issue the patent.

(2) Whether a patent made be rendered unenforceable due to the failure to disclose a prior art reference that does not render the patent invalid or otherwise contradict the applicant's statements to the Patent Office.

RULES 14.1(b) AND 29.6 STATEMENT

All parties are identified in the caption of this petition. Petitioner Avid Identification Systems, Inc. has no parent corporation, and no publicly held company owns 10% or more of its stock.

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PETITION FOR A WRIT OF CERTIORARI

Avid Identification Systems, Inc. respectfully petitions for a writ of *certiorari* to review the judgment of the United States Court of Appeals for the Federal Circuit.

OPINIONS BELOW

The opinion of the court of appeals (App., *infra*, 1a-29a) is reported at 603 F.3d 967 (Fed. Cir. 2010). The opinion of the court of appeals denying Avid's petition for rehearing, rehearing *en banc*, and motion for a stay of the mandate (App. 30a-37a) is reported at 614 F.3d 1330 (Fed. Cir. 2010). The district court's opinions (App. 38a-48a & 49a-54a) are reported at 2007 WL 2901415 (E.D. Tex. Sept. 28, 2007) and 2009 WL 383232 (E.D. Tex. Feb. 11, 2009).

JURISDICTION

The court of appeals entered its judgment on April 27, 2010 and denied panel rehearing and rehearing *en banc* on July 16, 2010. This Court's jurisdiction is invoked under 28 U.S.C. § 1254(1).

CONSTITUTIONAL, STATUTORY, AND REGULATORY PROVISIONS INVOLVED

The relevant statute, 35 U.S.C. § 282 sets forth the defenses to patent infringement. The applicable regulation, 37 C.F.R. § 1.56 defines the Patent's Office's policy regarding the individuals who must submit information to the Office and the types of information they must submit. The text of these provisions is set forth verbatim in Appendix E, *infra*, 55a-59a, pursuant to Supreme Court Rules 14(1)(f) & 14(1)(i)(v).

INTRODUCTION

This Court issued a series of decisions decades ago that refused to enforce a patent when individuals used fraud to convince the Patent Office to issue the patent or a court to preserve its validity. In each case, either the inventor, the inventor's attorney, or a witness collaborating with the inventor or attorney, submitted false evidence intended to show the alleged invention was patentable or argued the invention was patentable without disclosing information that he knew contradicted that argument. In each case, the fraud either led to the issuance or preservation of a patent that would have otherwise been deemed invalid, or was exceedingly likely to have done so because it directly contradicted the patent holder's other representations. This "inequitable conduct" defense was codified by the 1952 Patent Act as an "unenforceability" defense in 35 U.S.C. § 282.

The Federal Circuit has since expanded the doctrine in a manner that "has significantly diverged from the Supreme Court's treatment of inequitable conduct." *Larson Mfg. Co. v. Aluminart Prods.*, 559 F.3d 1317, 1342 (Fed. Cir. 2009) (Linn, J., concurring). The Federal Circuit's holding in this case features two examples of that expansion. First, it rendered the patent-in-suit unenforceable based solely on the inaction of someone who was not an inventor, not an attorney, and not involved in convincing the Patent Office to issue the patent. Second, the inaction was the non-disclosure of information that would not have changed the Patent Office's decision to issue the patent and did not contradict any representation made to the Patent Office. The facts here are thus a far cry from the cases of actual fraud in which this Court has previously applied the doctrine.

The negative consequences from expanding the narrow doctrine of "fraud on the Patent Office" into the nebulous defense of "inequitable conduct" are well-recognized by the Patent Office, several Federal Circuit judges, members of Congress, scholars, numerous bar associations, and many technology companies. Patent applicants now overload the Patent Office with tangentially relevant information without explaining its significance, for fear of being accused later of having wrongfully withheld or misrepresented something. The result is longer application processing times and the issuance of bad patents. Patent litigation has become more costly, complex, uncertain, and protracted because the inequitable conduct defense is now asserted in almost every case, leading to additional discovery, motion practice, and trial time. Reputable scientists and lawyers are routinely attacked with little or no justification.

This Court should return the scope of the defense to that set out in its prior cases. The Court has intervened in several recent patent cases in which the Federal Circuit has departed from the principles in this Court's prior decisions. See *Bilski v. Kappos*, 130 S. Ct. 3218 (2010); *Quanta Comp., Inc. v. LG Elecs., Inc.*, 553 U.S. 617 (2008); *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398 (2007); *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006); *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 US 722 (2002); *Warner-Jenkinson Co. v. Hilton Davis Chemical Co.*, 520 US 17 (1997). This case warrants similar intervention, especially given the negative consequences sure to follow from letting the Federal Circuit's decision stand, and the fact that the defense is judicially-created and has only been approved by Congress for use in extreme circumstances like those in this Court's prior decisions—not those here.

STATEMENT OF THE CASE

A. Proceedings in the District Court

Avid filed this suit to enforce its U.S. Patent No. 5,235,326 and pursue various other federal and state tort claims against the respondents. The '326 patent covers a radio frequency identification (RFID) system that includes an RFID tag and reader. One use of the system is to enable animal shelters to reunite a lost pet with its owner by using the RFID reader to retrieve the owner's contact information using an RFID tag previously implanted into the pet.

A jury found the respondents willfully infringed the patent and returned a general verdict that the patent was not invalid. (App. 40a; C.A. App. A27-32.) The jury's general verdict of no invalidity meant that it necessarily rejected respondents' argument at trial that sales and demonstrations of Avid's alleged prior art products—the e5500B integrated circuit and the Standard Reader—invalidate the '326 patent. (App. 40a.)

Nevertheless, after trial, the district court declared the '326 patent unenforceable because Avid's President, veterinarian Hannis Stoddard, did not disclose prior sales and demonstrations of those products to the Patent Office. (App. 38a-48a.) Dr. Stoddard was neither an inventor of the '326 patent nor the attorney who interacted with the Patent Office about the application. (C.A. App. A1394; A1403; A1419; A1424; A14733-A14734, ¶ 6.) There was no evidence that Dr. Stoddard reviewed a draft of the '326 patent application or drafts of any documents submitted to the Patent Office arguing the '326 patent should be issued. The prosecuting attorney that did communicate with the Patent Office, Robert

Malm, testified without contradiction that he had no conversations regarding "patent prosecution" with Dr. Stoddard. (*Id.* at A16650, ¶¶ 6-8.) ("Patent prosecution" is the term patent lawyers use to describe pursuing a patent application at the Patent Office.)

Indeed, during the period leading up to the filing of the patent application, Dr. Stoddard was a full-time veterinarian whose principal endeavor was running an animal hospital; Avid was a small, part-time project. (C.A. App. A16645-46, ¶¶ 3-4.) As a veterinarian, he recognized the need for a system to permit the return of a lost pet to its owner but lacked the technical knowledge needed to invent and build the complex RFID system of the '326 patent. (*Id.* at A1394.) He had no training in general engineering or electronics and had to hire the inventors, who were engineers, to develop the patented system. (*Id.* at A16646, ¶7; A1394.)

Despite these facts, the district court found that Dr. Stoddard was "substantively involved" in the '326 patent application process and thus had a duty to disclose to the Patent Office prior art that might be important to the application. (App. 47a.) The district court reached this conclusion based on its findings that (1) Dr. Stoddard co-founded Avid and was generally involved in "all aspects" of its operation, including marketing, sales, and research and development, (2) he received a memo that suggested checking with a patent attorney to determine whether Avid's sales of its prior products before filing a European patent application could affect its chances of obtaining a European patent, and (3) he was copied on a memo about a European patent application related to the '326 patent. (*Id.*) The district court did

not cite any evidence showing that Dr. Stoddard was involved in formulating—or even knew about—Avid's arguments to the U.S. Patent Office urging it to issue the '326 patent.

The district court also found Avid's prior products should have been disclosed to the Patent Office because they were the "closest prior art" to the '326 patent and would have thus been considered "important" to a reasonable examiner. (App. 45a.) The district court never found the prior art would have changed the Patent Office's decision to issue the patent or that it contradicted any of the arguments made for patentability to the Patent Office. It nonetheless concluded that they were "material" simply because it thought they were better than what the Patent Office already had.

After the district court's decision, Avid and the respondents entered into a settlement agreement resolving most issues in the case. (App. 5a.) But the agreement reserved Avid's right to challenge the inequitable conduct ruling on appeal, permitted Datamars to contest the appeal, and required respondents to pay Avid approximately $27,000 if its appeal was successful. (App. 7a-8a.) Datamars did not file an opposition brief at the Federal Circuit. But Allflex USA, Inc., a company involved in a separate lawsuit involving the '326 patent, filed *amicus* briefs in the district court and at the Federal Circuit supporting the inequitable conduct finding. (App. 7a, 49a-50a.) Allflex has a strong interest in affirmance because the district court in its case dismissed Avid's infringement claim against Allflex on the '326 patent based on the collateral estoppel effect of the judgment here. *Allflex USA, Inc. v. Avid Identification Sys., Inc.*, No. 5:06-cv-01109-MRP-OP, Dkt. No. 120

(C.D. Cal. Feb. 29, 2008). Allflex is also pursuing antitrust claims against Avid in that case based in part on the judgment of inequitable conduct here. *Id.* at Dkt. No. 190.

B. Proceedings at the Federal Circuit

A divided panel of the Federal Circuit affirmed. All three judges found they had Article III jurisdiction to reach the merits because, under the settlement agreement, the respondents could oppose the appeal, and Avid will recover the entire amount of damages for patent infringement that it requested at trial and was awarded by the jury if it succeeds. (App. 7a-8a.) The panel, relying on Federal Circuit precedent, also held that Avid's prior products were "material" because a reasonable examiner would consider them important, even though the jury found they were not invalidating. (App. 9a-10a.)

In addition, the majority affirmed the district court's finding that Dr. Stoddard's conduct could be the basis of an inequitable conduct charge because he was "substantively involved in the preparation or prosecution of the application." (App. 10a-19a.) The majority posited that "a variety of factors, such as an individual's position within the company, role in developing or marketing the patented idea, contact with the inventors or prosecutors, and representations to the [Patent Office]" are relevant to assessing substantive involvement. (App. 17a n.3.)

Applying these criteria, the majority concluded that Dr. Stoddard was substantively involved in the preparation or prosecution of the '326 patent application. The majority relied on the district court's findings discussed above, plus the fact that Dr. Stoddard submitted a small entity status affidavit to the Pa-

tent Office during the application process. (App. 13a-16a.) That affidavit simply certified that Avid had fewer than 500 employees, which therefore entitled Avid to reduced filing fees. (App. 28a; C.A. Suppl. App. 4-6.) It had nothing to do with whether the Patent Office should issue the '326 patent. (App. 28a.)

The majority also stressed that Dr. Stoddard was personally responsible for Avid's product demonstrations, without explaining why this would show he was involved in the patent application process. (App. 16a.) Finally, it expressed doubt that Dr. Stoddard was unable to assess the importance of Avid's prior products given that the district court discredited some of his testimony. (App. 15a.)

Judge Linn dissented from the majority's holding that Dr. Stoddard's actions could be the basis of an inequitable conduct defense. (App. 20a-29a.) He recognized that the real question is whether there was evidence linking Dr. Stoddard to preparation of the '326 patent application or interactions with the Patent Office about the patentability of that application. (App. 22a-23a.) As Judge Linn put it, "[s]imply having a general interest or even a financial interest in the invention or a general awareness of the application is not enough." (App. 23a.)

Starting with the proper focus, Judge Linn found it "significant that no document or testimony shows that Dr. Stoddard participated in any inventor meeting with patent counsel, received a draft of the application prior to filing, or received any draft response of an office action to the [Patent Office] during prosecution or was otherwise apprised of the technical details or legal merit of the application." (App. 26a.) He also pointed out that the Avid attorney who dealt with the Patent Office with respect to the application

testified, without contradiction, that he never discussed patent prosecution with Dr. Stoddard. (*Id.*)

Judge Linn correctly recognized that neither document cited by the district court related to the '326 patent. (App. 26a-27a.) He explained that Dr. Stoddard's general involvement in research and development, and the demonstrations of Avid's products, does not show involvement in the preparation or prosecution of the '326 patent application. (App. 27a-28a.) Finally, he dismissed the majority's reliance on the small entity affidavit because it "relates only to information about the corporation and not anything material to patentability." (App. 28a.)

Avid sought panel rehearing, rehearing *en banc*, or a stay of the mandate pending the Federal Circuit's resolution of another inequitable conduct case—*Therasense, Inc. v. Becton, Dickinson, & Co.*, 2010 WL 1655391 (Fed. Cir. Apr. 26, 2010)—which that court is currently rehearing *en banc*. These requests were denied.

Judge Newman dissented from the denial of a stay. She agreed with Judge Linn that Dr. Stoddard was not substantively involved in the preparation or prosecution of the '326 patent application. (App. 37a.) She also explained that *Therasense* will address one of the two issues in this case—how important an act or omission must be to be "material" and serve as a basis for refusing to enforce a patent. (App. 33a-36a.) Judge Newman explained that Avid's sales and demonstrations of its products are unquestionably not material under two of the potential standards, including the Patent Office's own definition of materiality in 37 C.F.R. § 1.56. (*Id.*) Because adoption of either standard would require reversal here, Judge Newman urged her colleagues to hold

the case until *Therasense* is decided, then to apply the *Therasense* standard of materiality. (*Id.*) Indeed, Judge Newman correctly pointed out that this Court routinely holds petitions for *certiorari* when another case on the same issue is before the Court on the merits. (App. 34a.)

The upshot of these opinions is that the Federal Circuit rendered a patent unenforceable because someone whose only connection to the patent application process was to sign an affidavit certifying that Avid had fewer than 500 employees did not disclose information that would not have changed the Patent Office's decision to issue the patent.

REASONS FOR GRANTING THE PETITION

The Federal Circuit's refusal to enforce Avid's valid and willfully infringed patent expands the inequitable conduct defense far beyond the principles established by this Court's precedent. It conflicts with the Patent Office's own rules governing who must disclose prior art to the Office and how important the art must be to warrant disclosure. It has no basis in the Patent Act, which codifies this Court's precedent without supplying a *carte blanche* grant of authority for the judiciary to expand the doctrine. It will increase the cost of litigating patent cases and the burden on the already overworked Patent Office.

This Court should therefore grant the petition for *certiorari* in order to limit the inequitable conduct defense to cases in which (i) the alleged wrongdoing is by someone who submitted information related to the Patent Office's decision to issue the patent or directed another to do so and (ii) if the alleged wrongdoing is failure to disclose information, the undisclosed information would have caused the Patent Of-

fice to reject the patent or have contradicted one of the patent applicant's arguments in favor of patentability. Because neither circumstance is present here, the Court should then reverse.

I. The Federal Circuit's Decision Is In Tension With This Court's Precedent, the Patent Office's Rules, and the Patent Statute.

A. This Court's Prior Cases Created a Far Narrower Defense Than the Defense Now Endorsed by the Federal Circuit.

This Court has sensibly held that inventors and patent attorneys that obtain a patent by lying to the Patent Office or a court—or use the testimony of witnesses who lie—cannot enforce that patent against others. The doctrine is a narrow one, however, and this Court has only applied it in cases of extreme fraud.

For example, *United States v. American Bell Telephone Co.*, 128 U.S. 315 (1888), denied a motion to dismiss the government's suit to a cancel a patent where it alleged the inventor was aware at the time he procured his patent that others had previously put the invention into use. Likewise, *Keystone Driller Co. v. General Excavator Co.*, 290 U.S. 240 (1933), refused to enforce a patent where the inventor suppressed evidence of an invalidating prior use during prior litigation and enticed the individual responsible for that use to submit an affidavit fraudulently claiming it was an abandoned experiment. A pair of other decisions—*Hazel-Atlas Glass Co. v. Hartford-Empire Co.*, 322 U.S. 238 (1944) and *Precision Instrument Mfg. Co. v. Automotive Maintenance Machinery Co.*, 324 U.S. 806 (1945)—were to similar effect. *Hazel-Atlas* refused to enforce a patent where

the attorney submitted to the Patent Office a scientific article that he wrote to tout the novelty of the invention, but that he paid a seemingly neutral expert to pass off as his own. In furtherance of that scheme, the expert submitted an affidavit claiming the article was the expert's own work. Likewise, *Precision Instrument* refused to enforce a patent where the inventor and eight other witnesses submitted testimony to the Patent Office falsely claiming an invention date earlier than that of a competing patent application.

Two general principles emerge from these cases. First, each case involved misconduct by individuals who submitted evidence or argument about whether an invention was patentable and committed fraud related to that submission. The inventors in *American Bell*, *Keystone*, and *Precision Instrument* all signed oaths asserting that they believed they were the original and first inventor of the subject matter claimed by their patents, as they were required to do by the patent statute. See Patent Act of 1870, Ch. 230, 16 Stat. 198-217 at § 30 (July 8, 1870); *accord* 35 U.S.C. § 115 (2010) (current version). Yet each inventor knew or allegedly knew of prior art that rendered that oath false. Likewise, the patent attorney in *Hazel-Atlas* fabricated evidence and used it to convince the Patent Office to change its mind and issue his client a patent. And the witnesses in *Keystone Driller*, *Hazel-Atlas*, and *Precision Instrument* submitted affidavits with a false date of invention, false praise for the purported invention, or false testimony to show a prior use was not invalidating. None of these cases relied on solely the actions of an individual who did not make any representations or submissions related to the propriety of issuing the patent in question.

Second, each case involved a misrepresentation that caused the adjudicator to find the invention patentable where it otherwise would not have. *Accord* Hon. Randall R. Rader, *Always at the Margin: Inequitable Conduct in Flux*, 59 AM. U. L. REV. 771, 781 (2010) (explaining that in this Court's cases "[t]he perpetrator of the fraud would not have received, or been able to enforce, the patent without the egregious conduct"). The alleged misrepresentation in *American Bell* caused the Patent Office to issue a patent that it later sought to revoke upon learning of the evidence of prior use by others. 128 U.S. at 350. The fabricated article and affidavit in *Hazel-Atlas* convinced the Patent Office to issue a patent for an application that it had repeatedly rejected before receiving them. 322 U.S. at 240-41, 246-47. The false affidavits in *Precision Instrument* caused the Patent Office to award a patent to the wrong set of inventors competing for priority of invention. 324 U.S. at 809-10, 812, 818. And the suppression in evidence in *Keystone* caused the first court to issue a decree finding the patents valid. 290 U.S. at 242-43, 246.

Neither circumstance is present in this case. The only individual accused of misconduct is Dr. Stoddard, who was not an inventor, not a patent attorney responsible for the application, and not a witness that submitted evidence or argument to establish patentability. The uncontested evidence is that he never communicated with the Patent Office about patentability. He never instructed anyone who did communicate with the Patent Office to withhold information. There is no evidence he communicated with anyone about the '326 patent application. Nothing suggests he knew enough about the content of the '326 application, or the specific technology it covered, to determine whether he was aware of infor-

mation that should be disclosed to the Patent Office. After all, he was a veterinarian—not an electrical engineer who was versed in the intricacies of RFID technology. His only involvement with the '326 patent application was to submit an affidavit certifying that Avid has fewer than 500 employees. This affidavit had no impact on the Patent Office's decision to issue the patent, and there is no suggestion it contained any misrepresentations.

What is more, the undisclosed information about Avid's prior products would not have changed the Patent Office's decision to issue the patent. This is evident from the jury's rejection of respondents' invalidity argument based on the same products at trial, which was never challenged on post-verdict motions or appeal. None of the decisions below even considered this issue, much less suggest otherwise. Likewise, none of the decisions below suggest that the existence or features of the products contradict a specific argument that Avid's inventors or attorneys made to the Patent Office.

Thus, the Federal Circuit's decision represents a marked and imprudent expansion of the limited unenforceability defense recognized by this Court's precedent, an expansion this Court should correct.

B. The Federal Circuit's Decision Conflicts with the Patent Office Rule That Defines an Applicant's Duty of Disclosure.

The Patent Office has a rule that tells practitioners before the Office who has a duty to disclose information about a pending patent application and what information they must disclose. See 37 C.F.R. § 1.56. The Rule is consistent with this Court's cases. See Brief of the United States as *Amicus Curiae*

in *Therasense* at 3. The Rule provides useful guidance regarding the proper scope of the inequitable conduct defense. After all, the Patent Office "is in the best position to know what information is essential to determining patentability of a claimed invention," *id.*, and it is authorized by statute to establish regulations governing procedure before it. 35 U.S.C. § 2(b)(2)(A). Moreover, a party cannot be said to have committed fraud if it disclosed to the Patent Office exactly what the Office said it wanted. The Federal Circuit's decision here conflicts with the Rule, which shows how unwise its approach is and further demonstrates how that Court has strayed from Supreme Court precedent.

The Patent Office's Rule 56 imposes a duty to disclose on limited categories of individuals, namely:

- "each inventor named in the application,"
- "each attorney or agent who prepares or prosecutes the application," and
- "[e]very other person who is substantively involved in the preparation or prosecution of the application and who is associated with the inventor, with the assignee or with anyone to whom there is an obligation to assign the application."

37 C.F.R. § 1.56(c).

Each person in this Court's precedents whose actions led to a finding of unenforceability fits into these categories. Most were inventors or prosecuting attorneys. The others were witnesses who were "substantively involved" in the "prosecution of the application" because they submitted information that bore directly on the decision of patentability. They were

experts who submitted declarations and articles about the prior art, or fact witnesses who submitted testimony about the date of invention or potential prior art.

Dr. Stoddard is not like any of these individuals. He was not an inventor or prosecuting attorney. There is no evidence that he had any involvement—much less substantive involvement—in preparing the '326 patent application or helping to craft any argument Avid's attorney subsequently made to the Patent Office urging it to issue the patent. There is no evidence he knew enough about the application or the underlying technology to even determine what information might be important to the Patent Office. As Judge Linn pointed out in dissent below, neither Dr. Stoddard's position at the company nor his being copied on two communications about European patents have anything to do with the application here. (App. 26a-27a.) The affidavit he signed certifying Avid had fewer than 500 employees also had no bearing on patentability. (App. 28a.)

The Federal Circuit panel majority took a much broader view of the Patent Office's Rule. It claimed that an individual could be "substantively involved" in the patent application process based on "a variety of factors, such as an individual's position within the company, role in developing or marketing the patented idea, contact with the inventors or prosecutors, and representations to the [Patent Office]." (App. 17a n.3.) Nothing in the Patent Office's rule (or this Court's cases) suggests that such a free-wheeling, expansive inquiry is appropriate.

Indeed, the first two factors are irrelevant to whether someone was involved in the prosecution of a patent application, as opposed to a company's gen-

eral research and development or management activities. The third is only relevant if the contact with the inventors or prosecutors was about the technical aspects of the patent application. Here, no evidence shows Dr. Stoddard had contact with the inventors or prosecutor about the application. Quite the contrary: the prosecuting attorney testified, without contradiction, that he never discussed patent prosecution matters with Dr. Stoddard. (C.A. App. (A14100, A14104; A16650, ¶¶ 6-8.) Finally, regarding the fourth factor, Dr. Stoddard made no representations to the Patent Office about patentability.

Rule 56 also explains that those limited categories of individuals must only disclose "material" information. "There is no duty to submit information which is not material to the patentability of any existing claim." 37 C.F.R. § 1.56(a). Information is "material" if it either:

- "establishes, by itself or in combination with other information, a prima facie case of unpatentability of a claim;" or
- "refutes, or is inconsistent with, a position the applicant takes in: (i) Opposing an argument of unpatentability relied on by the Office, or (ii) Asserting an argument of patentability,"

and is not "cumulative" to information already of record. 37 C.F.R. § 1.56(b).

The Rule's approach to "materiality" is in accord with the approach in this Court's precedent. Not all potentially relevant information must be disclosed to the Patent Office. Instead, the Rule only requires disclosure of information that would cause the Patent Office to initially refuse to grant a patent, or be

exceedingly likely to do so because it contradicts the applicant's other representations about patentability.

None of the courts below suggested that Avid's prior products would be "material" under the Patent Office's standard. Indeed, the only Judge to address the issue below was Judge Newman, and she concluded that "[t]he information here criticized does not appear to violate the current Rule 56 standard." (App. 37a.)

Instead, the lower courts, citing Federal Circuit precedent, found Avid's prior products were material because "a reasonable examiner" would have found them "important" when assessing patentability because they were the "closest prior art" to the '326 patent. (App. 9a-10a, 45a.) But that does not mean that it should have been disclosed under either this Court's precedent or the Patent Office's Rule. (App. 36a-37a (Newman, J., dissenting).) Nothing suggests those products would have changed the Patent Office's decision or even given it pause before issuing the '326 patent. Indeed, for a ground-breaking invention, a piece of prior art could be the "closest" yet still be miles away from the invention.

The Federal Circuit has refused to adopt the Patent Office's Rule 56 standard in lieu of the "reasonable examiner" standard. *Digital Control, Inc. v. Charles Mach. Works*, 437 F.3d 1309, 1315-16 (Fed. Cir. 2006). That refusal is ironic because the "reasonable examiner" standard was borrowed from the 1977 version of Rule 56's definition for "materiality." *Id.* The Patent Office amended Rule 56 in 1992 to jettison the "reasonable examiner" and adopt the current definition for "materiality" quoted previously. It did so because the "reasonable examiner" standard forced applicants and the Office to devote

unnecessary "resources . . . to duty of disclosure issues . . . without significantly contributing to the reliability of the patents being issued." 54 Fed. Reg. 11334 (1989). Given that the Federal Circuit has refused to follow the Patent Office's lead (and this Court's example), this Court should intervene.

C. The Federal Circuit's Decision Conflicts with the Patent Act, Which Codified This Court's Precedent.

The 1952 Patent Act codified the defenses to a patent infringement claim in 35 U.S.C. § 282. If there is statutory support for the inequitable conduct defense, it is found in the reference to an "unenforceability" defense in § 282(1). See *JP Stevens & Co., Inc. v. Lex Tex Ltd., Inc.*, 747 F.2d 1553, 1561-62 (Fed. Cir. 1984). One of the authors of the Act explained that "unenforceability" was a reference to "equitable defenses such as laches, estoppel and unclean hands," and the pre-1952 cases from this Court discussed above treated inequitable conduct as a form of unclean hands. *Id.* at 1561. Thus, the Federal Circuit has found statutory support for the defense in that section. *Id.*

Because § 282 has codified all the defenses to patent infringement, the courts' task is to apply the statutory text faithfully, not to create new defenses. Here, the text is best understood to codify the scope of the defense recognized by this Court's then-existing caselaw. See, e.g., *Davis v. Michigan Dep't of Treasury*, 489 U.S. 803, 831 (1989) ("When Congress codifies a judicially defined concept, it is presumed, absent an express statement to the contrary, that Congress intended to adopt the interpretation placed on that concept by the courts."). Thus, courts must apply § 282 by applying—but not expanding

upon—this Court's precedent. *Grupo Mexicano v. Alliance Bond Fund*, 527 U.S. 308, 329 (1999) ("[O]ur traditionally cautious approach to equitable powers . . . leaves any substantial expansion of past practice to Congress.") In particular, inequitable conduct should remain "only as a remedy for truly abusive behavior," as it was in this Court's cases—not expanded to further some "universal principle to encourage a patent owner to disclose (excessive amounts of) prior art." Rader, 59 AM. U. L. REV. at 781.

The Federal Circuit's inequitable conduct jurisprudence stopped citing § 282 or considering whether its treatment of the defense comported with the statute long ago. That makes this Court's intervention all the more imperative. The expansion of the inequitable conduct defense is not just a case of overreading judicial precedent, but of transgressing the limited authority Congress has granted courts to refuse to enforce otherwise valid and infringed patents.

II. The Federal Circuit's Expansion of this Court's Precedent Has Created Negative Consequences That Continue to Worsen.

The Court's intervention is not only necessary to bring the inequitable conduct defense in line with its precedent, the Patent Office's views, and statute, but to eliminate multiple negative consequences that have resulted from the Federal Circuit's expansion of the doctrine, consequences that will only worsen if the decision here is left intact.

First, expansion of the inequitable conduct defense has increased the costs of patent litigation, while distracting from the real issues of infringement and validity. Senator Hatch, one of the lead archi-

tects of the pending Patent Reform legislation, the American Bar Association, and two Directors of the Patent Office have decried this development:

- "The inequitable conduct defense is frequently pled, rarely proven, and always drives up the cost of litigation tremendously. Under current law, any perceived transgression of the patent owner is being painted as 'fraud.' . . . This is why inequitable-conduct challenges are raised in nearly every patent case." 155 CONG REC. S2,715 (Mar. 3, 2009) (statement of Sen. Hatch).
- "Allegations of inequitable conduct often are based on speculation or harmless mistake and, in most cases, are unsuccessful. Nevertheless, the defense adds substantially to the complexity and cost of litigation. It leads to relentless discovery in hopes of finding supportive evidence. . . . Accused infringers' aggressive discovery demands lead in turn to resistance to those demands by the patentee, with the attendant discovery disputes and motion practice. All of this results in increasing the complexity, duration and cost of patent infringement litigation that is already notorious for its complexity and high cost." American Bar Ass'n Report with Recommendation #107B (adopted Aug. 2009), *available at* http://www.abanet.org/leadership/2009/annual/summary_of_recommendations/One_Hundred_Seven_B.doc (last visited Oct. 11, 2010).
- "While the risk of an inequitable conduct finding is low, it is frequently alleged. When alleged, inequitable conduct assertions add

substantially to litigation costs and malpractice claims." *Patent Reform: The Future of American Innovation, Hearing Before the Senate Judiciary Committee*, 110 Cong. (June 6, 2007) (statement of Jon W. Dudas, Former Director of the U.S. Patent & Trademark Office), *available at* http://judiciary.senate.gov/hearings/testimony.cfm?id=2803&wit_id=6506.

- "Inequitable conduct allegations have been called a plague on the patent system. They're expensive, discovery-heavy, and most importantly, they usually don't get to the heart of patentability. In fact, they become a high priced side show to the real issues. In some cases, they come down to the last refuge of the blatant infringer." David Kappos, Director of the U.S. Patent and Trademark Office, *Remarks at George Washington Law Symposium* (May 11, 2010), *available at* http://www.uspto.gov/news/speeches/2010/Kappos_GW_Law_Symposium.jsp.

Statistical studies are in accord with these remarks. The defense may be raised in as many as 80% of all patent cases. See Brief of the United States as *Amicus Curiae* in *Therasense* at 2. Even some of the more conservative estimates show the defense was pled ten times as frequently in 2008 as it was in 2000. See Christian Mammen, *Controlling the "Plague": Reforming the Doctrine of Inequitable Conduct*, 24 Berkeley Tech. L.J. 1329, 1358-60 (2009).

The Federal Circuit's decision here will severely exacerbate these problems because it opens up many new classes of people to attack. Until this case, in-

equitable conduct allegations focused primarily on inventors and prosecuting attorneys. Now, defendants will be able to attack almost any scientist in a company's R&D division who was acquainted with the inventors. They will be able to attack marketing personnel responsible for products in the field of invention. They will be able to attack senior managers who have a general interest in seeing their company obtain patents or have some involvement in hiring inventors or in suggesting research in the field related to the patent.

These individuals will have no involvement with any particular patent application or knowledge of the technical details of a patent application. But they may be generally aware of prior art, even if they do not realize its significance. As Judge Linn stated in dissent, "[t]he majority's interpretation places on persons who are not in a position to assess materiality an obligation to disclose information the relevance of which they have no way of determining." (App. 25a.) Under the Federal Circuit's multi-factor test, these peripheral persons will now become targets of the "blatant infringer." The Federal Circuit's decision will also continue to permit inequitable conduct allegations to go forward where the alleged wrongdoing was harmless and would not have changed the Patent Office's decision.

Second, expansion of the inequitable conduct defense, and the resulting uncertainty about what conduct might result in unenforceability, have increased the burden on the Patent Office. The problem is twofold: (1) Applicants disclose too much prior art, most of it tangentially relevant but (2) are afraid to explain the significance of any of it for fear of being accused of misrepresenting something:

- "The 'all or nothing' result of an inequitable conduct finding understandably has a perverse effect on the actions of applicants and their attorneys with respect to 'risking' a proper [prior art] search in the first place. As a result, the doctrine results in counterproductive behavior before the USPTO. It discourages many applicants from conducting a search and leads others to be indiscriminate in the information they submit. In a review two years ago, we found that over 50% of submitted applications contained either no information disclosure statement or that such submissions included more than 20 references." *Patent Reform: The Future of American Innovation, Hearing Before the Senate Judiciary Committee*, 110 Cong. (June 6, 2007) (statement of Jon W. Dudas, Director of the U.S. Patent and Trademark Office), http://judiciary.senate.gov/hearings/testimony.cfm?id=2803&wit_id=6506.

- "Applicants disclose too much prior art for the PTO to meaningfully consider, and do not explain its significance, all out of fear that to do otherwise risks a claim of inequitable conduct." ABA Section of Intellectual Property Law, *A Section White Paper: Agenda for 21st Century Patent Reform* 2 (2009), *available at* http://www.abanet.org/intelprop/home/PatentReformWP.pdf.

- "[T]o fulfill their disclosure requirement and avoid a later charge of inequitable conduct, [applicants] send the office all the prior art references they are aware of, including those

that are only 'vaguely relevant.'" H.R. Rep. No. 110-314, at 42 (2007).

- "Because applicants are unclear what information to submit to the PTO, they all too often file mounds of information with questionable materiality. *See, e.g.*, U.S. Patent No. 7,651,688 (900 references submitted by the applicant . . . without any indication which ones or parts of the references were most relevant). The agency has seen an increasing trend of applicants 'dumping' references on patent examiners in just the past five years." Brief of the United States as *Amicus Curiae* in *Therasense* at 17.

This information overload leads to examiners—who, on average, have only 20 hours total to review the application, conduct a prior art search, review materials submitted by the applicant, and issue a decision rejecting or granting the patent—who cannot realistically review all the information submitted to them. See National Research Council for the National Academies, A PATENT SYSTEM FOR THE 21ST CENTURY 147 (2004). This impairs the patent examiner's ability find and analyze the truly important prior art, and it may even prevent the examiner from processing any of the highly technical information that is disclosed. See Christoper A. Cotropia, *Modernizing Patent Law's Inequitable Conduct Doctrine*, 24 Berkeley Tech. L.J. 723, 770-72 (2009). This ultimately leads to the issuance of invalid patents, as examiners are forced to push applications through the process to get them off their dockets. Yet it also threatens quality patents with the prospect of unenforceability due to a minor misstep.

The Federal Circuit's decision here will only add to these problems. It expands the universe of individuals who can be accused of inequitable conduct in a way that makes it difficult for prosecuting attorneys to determine from whom they should collect information. This will force prosecuting attorneys to collect prior art from people who are only tangentially acquainted with the inventors. The result? A new flood of marginally relevant submissions to the Patent Office.

Likewise, by maintaining a lax and vague standard for materiality, the Federal Circuit has discarded the advice of the United States, which has encouraged adoption of a stricter standard because patent applicants "all too often file mounds of information with questionable materiality." Brief of the United States as *Amicus Curiae* in *Therasense* at 17. "This flood of information strains the agency's examining resources and directly contributes to the backlog" of pending patent applications. *Id.* at 17-18.

Third, expansion of the inequitable conduct defense encourages attacks on reputable scientists, attorneys, and others who participate in Patent Office proceedings. There is no remedy for defamatory allegations about a person's character made during litigation if they are related to the case, even if they turn out to be blatantly false. *Burns v. Reed*, 500 U.S. 478, 491 (1991). This feeds a "culture of attack on inventor rights and attorney reputations based on inference and innuendo." *Ferring B.V. v. Barr Labs., Inc.*, 437 F.3d 1181, 1195 (Fed. Cir. 2006) (Newman, J., dissenting). Fear of such attacks could well deter people from seeking to patent their inventions, depriving society of the benefit of the disclosure of their ideas. What is more, many attorneys who are found

guilty of inequitable conduct resign their practices, lose their jobs, or lose clients. See Edwin S. Flores & Sanford E. Warren, Jr., *Inequitable Conduct, Fraud, and Your License to Practice Before the United States Patent and Trademark Office*, 8 TEX. INTELL. PROP. L.J. 29, 321-29 (2000). Given these stakes, it is imperative to limit inequitable conduct findings to truly egregious cases.

The Federal Circuit's expansive inequitable conduct doctrine is especially unwarranted in view of these consequences. Indeed, inequitable conduct has "no counterpart[] in the major patent systems of Europe, Japan and elsewhere." Donald S. Chisum, *Best Mode Concealment and Inequitable Conduct in Patent Procurement: A Nutshell, A Review of Review of Recent Federal Circuit Cases and a Plea for Modest Reform*, 13 SANTA CLARA COMPUTER & HIGH TECH L.J. 277, 279 (1997). This shows that such an expansive view of the defense is unnecessary to an effective patent system that stimulates and protects innovation.

Several Federal Circuit judges have also recognized the problems the expansion of the doctrine has caused:

- "Although designed to facilitate USPTO examination, inequitable conduct has taken on a new life as a litigation tactic. The allegation of inequitable conduct opens new avenues of discovery; impugns the integrity of patentee, its counsel, and the patent itself; excludes the prosecuting attorney from trial participation (other than as a witness); and even offers the trial court a way to dispose of a case without the rigors of claim construction and other complex patent doctrines."

Aventis Pharma S.A. v. Amphastar Pharmaceuticals, Inc., 525 F.3d 1334, 1349-50 (Fed. Cir. 2008) (Rader, J., dissenting).

- "This case exemplifies the ongoing pandemic of baseless inequitable conduct charges that pervade our patent system." *Taltech Ltd. v. Esquel Enterprises Ltd.*, 604 F.3d 1324, 1335 (Fed. Cir. 2010) (Gajarsa, J., dissenting).
- "As this litigation-driven [inequitable conduct defense] evolved, the law came to demand a perfection that few could attain in the complexities of patent practice. The result was not simply the elimination of fraudulently obtained patents, when such situations existed. The consequences were disproportionally pernicious, for they went far beyond punishing improper practice. The defense was grossly misused, and with inequitable conduct charged in almost every case in litigation, judges came to believe that every inventor and every patent attorney wallowed in sharp practice. . . . My colleagues on this panel have regressed to that benighted era . . . ." *Ferring*, 437 F.3d at 1195 (Newman, J., dissenting).
- "Reputable lawyers seem to feel compelled to make the charge against other reputable lawyers on the slenderest grounds, to represent their client's interests adequately, perhaps. They get anywhere with the accusation in but a small percentage of the cases, but such charges are not inconsequential on that account. They destroy the respect for one another's integrity, for being fellow members of an honorable profession, that

> used to make the bar a valuable help to the courts in making a sound disposition of their cases, and to sustain the good name of the bar itself. A patent litigant should be made to feel, therefore, that an unsupported charge of 'inequitable conduct in the Patent Office' is a negative contribution to the rightful administration of justice." *Burlington Indus., Inc. v. Dayco Corp.*, 849 F.2d 1418, 1422 (Fed. Cir. 1988).

Indeed, Judge Linn's dissent from the panel opinion in this case recognizes that the effect of the Federal Circuit's decision here will be "either to encourage the filing of information regardless of its materiality, just to be on the safe side, or to widen the net of inequitable conduct that may be cast by accused infringers after the fact in litigation." (App. 25a)

These negative consequences have led for calls by the National Academy of Science and the ABA to reform and abolish the inequitable conduct doctrine:

- "In view of its cost and limited deterrent value the committee recommends the elimination of the inequitable conduct doctrine or changes in its implementation." National Research Council for the National Academies, A PATENT SYSTEM FOR THE 21ST CENTURY 123 (2004).
- "Under current law, the standard for what might constitute inequitable conduct is vague and indefinite in its application. . . . The Recommendation supports limiting . . . the application of the inequitable conduct defense to cases in which a fraud resulted in the PTO's issuing one or more invalid claims." Ameri-

can Bar Ass'n Report with Recommendation #107B (adopted Aug. 2009).

The Patent Office, the Intellectual Property Owners Association, bar associations, groups of patent practitioners, and over 10 other *amici* have submitted briefs in the pending *en banc Therasense* case at the Federal Circuit echoing these sentiments.

The Federal Circuit apparently believes that its expansive view of the defense is necessary to deter applicants from withholding prior art when it is a "close case, where the materiality of the information is uncertain," no matter how minimal the benefit from such disclosure. *Brasseler, U.S.A. I, L.P. v. Stryker Sales Corp.*, 267 F.3d 1370, 1386 (Fed. Cir. 2001). But this Court has recognized that it is inappropriate to impose, in the name of deterrence, draconian remedies that are disproportionate to the harm they seek to prevent. *Herring v. United States*, 129 S. Ct. 695, 700-01 (2009) ("[T]o the extent that application of the exclusionary rule could provide some incremental deterrent, that possible benefit must be weighed against its substantial costs."). That lesson is equally applicable here: whatever benefits can be attributed to the Federal Circuit's expansion of the inequitable conduct defense, they are not worth the costs.

III. This Case Is the Ideal Vehicle to Resolve the Questions Presented.

This case is a perfect example of how the Federal Circuit has contorted the narrow inequitable conduct defense established by this Court's precedent. The Federal Circuit has refused to enforce the patent here because Dr. Stoddard, whose only involvement with the '326 patent application was to sign an affi-

davit certifying his company had fewer than 500 employees, did not disclose prior products that would not have influenced the Patent Office's decision to issue the patent. In doing so, that court has expanded the inequitable conduct defense to sweep in the activities of a wide range of new individuals, even when their activities have no impact on the Patent Office's ultimate decision to issue the patent.

The Federal Circuit's decision here will have an immediate nationwide impact because that court has exclusive jurisdiction over patent appeals from the district courts. 28 U.S.C. § 1295. This Court often grants review of Federal Circuit rulings based on the importance of the issue presented to the interpretation and application of the patent laws. See, e.g., *Merck KGaA v. Integra Lifesciences I, Ltd.*, 545 U.S. 193 (2005); *Global-Tech Appliances, Inc. v. SEB S.A.*, No. 10-6, *cert. granted* Oct. 12, 2010; and cases cited at p. 3. Inequitable conduct issues arise more frequently than many of the other patent-related issues this Court has considered in recent years—for example, the application of 35 U.S.C. § 101 (*Bilski*), the scope of patent exhaustion (*Quanta*), the safe-harbor provision of § 271(e) (*Merck*), and inducement (*Global-Tech*). So they are at least as worthy of review by this Court.

The issues presented will not benefit from further percolation in the Federal Circuit. It is true that the Federal Circuit is currently considering a number of questions related to inequitable conduct *en banc* in the *Therasense* case. See 2010 WL 1655391 (order listing questions for *en banc* review). But the first question presented by this case—what individuals' actions may give rise to a charge of inequitable conduct—is not at issue in *Therasense*.

And although the appropriate standard for materiality is at issue in *Therasense*, it seems apparent that the Federal Circuit intends to retain the "reasonable examiner" standard for materiality rather than raising it to a level consistent with this Court's precedent and the Patent Office's Rule 56 because it refused to stay this case pending *Therasense*. As Judge Newman pointed out in dissent, if the Federal Circuit were to adopt a higher standard for materiality, it would change the result in this case. (App. 37a.) The Federal Circuit's decision not to hold this case pending *Therasense* suggests that the *en banc* court does not believe *Therasense* will change the result—*i.e.*, expects to adhere to its lower standard for materiality. Given the Federal Circuit's apparent unwillingness to adopt the correct standard for materiality, this Court should step in on that question too without further delay.

IV. At a Minimum, This Court Should GVR the Case To Be Considered Again by the Federal Circuit After It Decides *Therasense*.

Even if this Court prefers to await the Federal Circuit's *en banc* decision in *Therasense* before addressing inequitable conduct itself, it should grant the petition for *certiorari*, vacate the judgment, and remand with instructions for the Federal Circuit to apply the legal rules that emerge from *Therasense* to this case. This Court has GVR'd other cases in similar circumstances. See, e.g., *Lee v. United States*, __ S. Ct. __, 2010 WL 595570, No. 09-9085, (Oct. 4, 2010) (GVR'ing a 7th Circuit case for further consideration of an intervening 7th Circuit *en banc* decision); *Metropolitan Life Ins. Co. v. Hawkins-Dean*, 549 U.S. 1048 (2006) (GVR'ing a 9th Circuit case for

further consideration of an intervening 9th Circuit *en banc* decision). It should do the same here.

The Federal Circuit had no basis for issuing a decision in this case while *Therasense* is still pending. The Federal Circuit granted rehearing *en banc* in *Therasense* before the panel issued its opinion in this case. As Judge Newman pointed out in her dissent below, the Federal Circuit should have done what this Court always does after it grants a petition for *certiorari*: it should have held cases raising similar issues that might be impacted until after the lead case was resolved. (App. 34a.) As this Court has explained, "[w]e fulfill our judicial responsibility by instructing the lower courts to apply the new rule retroactively to cases not yet final." *Lawrence v. Chater*, 516 U.S. 163, 167 (1996). Doing so alleviates the risk of unequal treatment of pending cases raising similar issues. *Id.*

Chief Judge Rader has acknowledged the Federal Circuit should normally employ the same procedure:

> In *Therasense* this court has been asked to address the transformation of inequitable conduct from the rare exceptional cases of egregious fraud that results in the grant of a patent that would not otherwise issue to a rather automatic assertion in every infringement case. The exception has become the rule. Generally, I would hold inequitable conduct cases until after this court reexamines whether to put the doctrine back into the exception category.

Advanced Magnetic Closures, Inc. v. Jaroslawicz, 607 F.3d 817, 834-35 (Fed. Cir. 2010) (Rader, C.J., concurring).

There is no good reason not to give Avid the benefit of the Federal Circuit's *Therasense* decision, especially when the panel decided this case after the *en banc* court agreed to hear another case presenting one of the exact same issues. As Judge Newman explained, "it would be grievously unjust to eradicate this patent on grounds that may soon be changed by the en banc court." (App. 34a.) The injustice is even worse than usual here because Allflex is using the inequitable conduct judgment in this case to accuse Avid of having violated the antitrust laws. Thus, at a minimum, this Court should rectify that injustice.

CONCLUSION

For the reasons above, the petition for a writ of *certiorari* should be granted. At a minimum, the Court should GVR this case with instructions for the Federal Circuit to apply the legal principles that emerge from *Therasense* to this case.

Respectfully submitted,

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OCTOBER 2010

APPENDIX A

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

2009-1216, -1254

AVID IDENTIFICATION SYSTEMS, INC.,

Plaintiff-Appellant,

v.

THE CRYSTAL IMPORT CORPORATION, DATAMARS SA and DATAMARS, INC.,

Defendants.

John W. Thornburgh, Fish & Richardson P.C., of San Diego, California, for plaintiff-appellant. With him on the brief were Juanita R. Brooks, Roger A. Denning, and Michael A. Amon.

K.T. Cherian, Howrey LLP, of San Francisco, California, for amicus curiae Allflex USA, Inc. With him on the brief were Ronald S. Wynn; and Richard L. Stanley, of Houston, Texas.

Appealed from: United States District Court for the Eastern District of Texas

Judge T. John Ward

APPENDIX A

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

2009-1216, -1254

AVID IDENTIFICATION SYSTEMS, INC.,

Plaintiff-Appellant,

v.

THE CRYSTAL IMPORT CORPORATION, DATAMARS SA and DATAMARS, INC.,

Defendants.

Appeals from the United States District Court for the Eastern District of Texas in case no. 2:04-CV-183, Judge T. John Ward.

DECIDED: April 27, 2010

Before MAYER, LINN, and PROST, Circuit Judges.

Opinion for the court filed by Circuit Judge PROST. Opinion concurring-in-part and dissenting-in-part filed by Circuit Judge LINN.

PROST, Circuit Judge.

Avid Identification Systems Inc. ("Avid") brought suit against Datamars SA and its subsidiary Crystal Import Corporation (collectively "Datamars") alleging infringement of Avid's U.S. Patent No. 5,235,326 ("the '326 patent") directed to a multi-mode radio-frequency identification system for reading encoded biocompatible chips. The patent was

found valid and infringed, but held to be unenforceable for inequitable conduct. This appeal challenges the district court's finding of inequitable conduct. In reviewing the district court's finding, we address which individuals are "substantively involved" in the preparation or prosecution of a patent application and thus owe a duty of candor and good faith to the Patent and Trademark Office under 37 C.F.R. § 1.56. We affirm the finding of the district court.

BACKGROUND

Avid is a small, closely held company that designs and markets biocompatible radio frequency identification chips for implantation in animals. Avid markets its chips to pet owners as a way of increasing the chances that an estranged companion animal will be identified and reunited with its family. Avid markets devices for reading its chips to animal hospitals and shelters.

Avid's founder and president, veterinarian Dr. Hannis Stoddard, testified that he decided to form the Avid corporation after visiting an animal shelter to reclaim his own lost dog. He explained that most animals at the shelter were clearly lost pets, but there was no way to find their homes. Dr. Stoddard made it his mission to implement a better system of dealing with the identification and processing of recovered animals. He and a colleague, Peter Troesch, formed Avid for the purpose of carrying out Dr. Stoddard's mission.

When the company first started, Avid purchased unencrypted identification chips from a supplier, relabeled them, and sold them as a marketer and distributor. The company discontinued its resale business model in around 1985 because Dr. Stoddard

wanted Avid to develop its own technology. Specifically, Stoddard wanted Avid to develop a chip and reader system, where the reader could read both the unencrypted chips currently on the market as well as encrypted chips that Avid produced. Stoddard hired at least three engineers, Dr. Polish, Dr. Malm, and Mr. Beigel, to carry out this objective. By about 1990, these engineers developed an encrypted identification chip that could be read by a reader programmed with Avid's decryption code. They also developed a "multi-mode" reader that could read both Avid's encrypted chip and traditional unencrypted chips.

Dr. Stoddard demonstrated some of Avid's technology at a U.S. Livestock Committee trade show in around April of 1990. In August of 1991, Avid filed for the '326 patent on a multi-mode encrypted chip and reader system, where the reader can read both unencrypted chips and Avid's encrypted chips. The inventors named on the application were Polish, Malm, and Beigel. Dr. Malm was also listed as the prosecuting attorney. A few days before the patent application was filed, the inventors assigned their rights to Avid. Dr. Stoddard signed the small entity status affidavit filed with the patent. Avid was also pursuing European patent rights for its encrypted chip and reader system during this time. The '326 patent issued in August of 1993.

Datamars is a competitor of Avid in the companion animal identification chip market. Avid brought suit against Datamars and several other competitors in 2004 alleging infringement of its '326 patent, as well as unfair competition and false advertising claims. The other defendants settled their claims with Avid. The case against Datamars proceeded to trial and a verdict.

The jury found the '326 patent willfully infringed and not invalid, and found in favor of Avid on the unfair competition and false advertising claims. The jury awarded Avid $26,981 on the patent infringement claim and $6 million on the unfair competition claim. Following the trial, Datamars filed a motion to hold the patent unenforceable for inequitable conduct. The district court granted the motion, without trial, finding that Dr. Stoddard's trade show demonstration was material prior art under 35 U.S.C. § 102(b) and that information regarding the demonstration was withheld from the U.S. Patent and Trademark Office ("PTO") with deceptive intent. Specifically, the district court found that Dr. Stoddard owed a duty of candor to the PTO.

After this ruling on inequitable conduct, the parties entered into a settlement agreement. Pursuant to the terms of the agreement, the parties stipulated to a dismissal of all claims other than those related to the '326 patent, the payment for unfair competition was reduced to $3 million, Avid filed an unopposed motion for reconsideration of the district court's inequitable conduct decision, and Datamars agreed not to contest the standing, jurisdiction, mootness, or case and controversy of the inequitable conduct decision on appeal to this court. In the event that Avid prevailed on reversing the inequitable conduct determination on motion for reconsideration or on appeal to this court, Datamars agreed to pay the $26,981 previously awarded by the jury for infringement of the '326 patent.

The district court dismissed the unopposed motion for reconsideration of the inequitable conduct decision, finding that there was no case or controversy between the parties. The district court explained

that the terms of the settlement agreement explicitly precluded Datamars from opposing the motion for reconsideration in any way, thus eliminating any adversity between the parties on all matters before the district court. The district court noted in its opinion that Avid argued, for the first time on reconsideration, that Dr. Stoddard did not have a duty of candor before the PTO.

Avid timely appealed the district court's determination of inequitable conduct to this court. Datamars did not file a brief in response.

DISCUSSION

There are two issues before this court on appeal: first, whether the court has jurisdiction to decide the issue of inequitable conduct, and second, if we do have jurisdiction, whether the district court abused its discretion in holding the '326 patent unenforceable for inequitable conduct. We discuss each in turn.

I. Case and Controversy

As a preliminary matter, we must determine whether the issue of inequitable conduct is properly before this court. The mere fact that Datamars agreed with Avid not to dispute standing, jurisdiction, mootness, and case or controversy in this appeal does not thereby give Avid standing or this court jurisdiction. Similarly, it does not create a case or controversy where one would not otherwise exist. This court must always determine for itself whether it has jurisdiction to hear the case before it, even when the parties do not raise or contest the issue. Special Devices, Inc. v. OEA, Inc., 269 F.3d 1340, 1342 (Fed. Cir. 2001); View Eng'g, Inc. v. Robotic Vision Sys., Inc., 115 F.3d 962, 963 (Fed. Cir. 1997).

Amicus Allflex argues that Avid's appeal is mooted by the settlement agreement between Avid and Datamars. Allflex argues that the provision of the settlement carving out the '326 patent and making the $26,981 payment contingent on the outcome of this appeal is not enough to preserve a controversy between the parties. Allflex argues that Datamars has no further interest in the disposition of this case, and that the $26,981 "side bet" is a nominal gesture in light of the $3 million in consideration to Datamars for agreeing not to oppose reconsideration below or the procedural appropriateness of the appeal.

For the reasons stated in the district court's opinion dismissing Avid's motion for reconsideration, we agree with the district court that the terms of Avid's settlement agreement with Datamars eliminated any case or controversy before the district court regarding the motion for reconsideration. The settlement agreement's limitations on Datamars's ability to oppose Avid's efforts on appeal, however, are different from the agreement's limitations on Datamars's ability oppose Avid's motion for reconsideration. As a result of these differences, there is still a live controversy between the parties on appeal.

A live controversy still exists because Datamars remained free under the settlement agreement to oppose this appeal on the merits. See, e.g., Kimberly-Clark Corp. v. Proctor & Gamble Distributing Co., 973 F.2d 911, 913-14 (Fed. Cir. 1992). That it chose not to submit a brief does not deprive this court of jurisdiction over the issues on appeal. Similarly, Datamars's agreement not to contest the procedural appropriateness of the appeal does not release this court from its legal obligation to determine

procedural appropriateness sua sponte. See Johannsen v. Pay Less Drug Stores N.W., Inc., 918 F.2d 160, 161 (Fed. Cir. 1990). Both the merits and procedure are therefore issues before the court on appeal.

Although the $26,981 riding on the outcome of the appeal may be dwarfed by the other monetary provisions of the settlement agreement, this amount is not a token or arbitrary sum introduced for the purpose of manufacturing a controversy. It represents the entirety of the jury award for patent infringement, which Datamars would have been legally obligated to pay to Avid if the '326 patent were not held unenforceable.

For these reasons, we conclude that there remains a live controversy between the parties on the issue of unenforceability of the '326 patent, and that this court has jurisdiction to decide the case under 28 U.S.C. § 1295(a)(1). We now turn to the merits of the issues presented.

II. Inequitable Conduct

A party may show inequitable conduct by producing clear and convincing evidence of (1) material prior art, (2) knowledge chargeable to the patent applicant of prior art and its materiality, and (3) the applicant's failure to disclose the prior art to the PTO with intent to mislead. FMC Corp. v. Manitowoc Co., 835 F.2d 1411, 1415 (Fed. Cir. 1987). Information is material if there is a "substantial likelihood that a reasonable examiner would consider it important in deciding whether to allow the application to issue as a patent." J.P. Stevens & Co. v. Lex Tex Ltd., 747 F.2d 1553, 1559 (Fed. Cir. 1984).

This court reviews the ultimate determination of inequitable conduct under an abuse of discretion standard. Kingsdown Med. Consultants Ltd. v. Hollister Inc., 863 F.2d 867, 876 (Fed. Cir. 1988) (en banc in relevant part). The underlying findings on materiality and intent are reviewed for clear error and will not be disturbed on appeal in the absence of a "definite and firm conviction" that a mistake has been made. Id. at 872.

In the present appeal, Avid challenges the district court's finding that the trade show demonstration was material and that Dr. Stoddard had a duty of candor to disclose this information. Avid does not dispute on appeal that Dr. Stoddard withheld the information with specific intent to deceive the PTO for the purposes of obtaining a patent. We thus turn to the issues of materiality and duty of candor.

A. Materiality

In evaluating materiality, this court typically refers to the definition provided in 37 C.F.R. § 1.56, by which the PTO promulgated the duty of disclosure. See Astrazeneca Pharm. LP v. Teva Pharm. USA, 583 F.3d 766, 773 (Fed. Cir. 2009). Information is material where a reasonable examiner would find it important to a determination of patentability. Id.

On appeal, Avid argues that the district court's finding of materiality was clearly erroneous because Dr. Stoddard's trade show demonstration related to a precursor product that did not contain all of the elements of the '326 patent claims. Avid's arguments against materiality focus on the fact that a jury was presented with the trade show information and still found the patent not invalid. Avid con-

cludes that the jury must have found that the trade show demonstrations were not § 102(b) prior art. Such arguments, however, confuse the concepts of "material" and "invalidating." We have often held that a reasonable examiner may find a particular piece of information important to a determination of patentability, even if that piece of information does not actually invalidate the patent. See Praxair, Inc. v. ATMI, Inc., 543 F.3d 1306, 1314-15 (Fed. Cir. 2008) (holding that similar prior art that did not meet all of the patent's claim limitations was nonetheless material); Upjohn Co. v. Mova Pharm. Corp., 225 F.3d 1306, 1312 (Fed. Cir. 2000); Molins PLC v. Textron, Inc., 48 F.3d 1172, 1179-80 (Fed. Cir. 1995).

The district court found that sales demonstrations would be important to a determination of patentability under § 102(b). See 35 U.S.C. § 102(b) ("the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States"). The district court found that the precursor product, while not invalidating, reflected the closest prior art, and thus was highly material to patentability. We hold that the district court's analysis of materiality is not clearly erroneous.

B. Duty of Candor

PTO Rule 56, codified at 37 C.F.R. § 1.56, imposes on all individuals associated with the filing and prosecution of a patent application a duty of candor and good faith in dealing with the PTO during the period of examination of a patent application. 37 C.F.R. § 1.56(a). The duty of candor includes a duty to disclose to the PTO all information known to each individual that is material to the issue of pa-

tentability. Id. This information includes prior sale or public use of the invention one year or more before the filing date of the application. See 37 C.F.R. § 1.56(b). Thus, to have a duty to disclose information to the PTO, an individual must (1) be associated with the filing and prosecution of a patent application such that he owes a duty of candor to the PTO, and (2) know that the information is question is material. Id. § 1.56(a).

For purposes of identifying who owes a duty of candor to the PTO, Rule 56 defines "individual[s] associated with the filing or prosecution of a patent application" as (1) each named inventor, (2) each attorney or agent that prepares or prosecutes the application, and (3) every other person who is substantively involved in the preparation or prosecution of the application and who is associated with the inventor or assignee. 37 C.F.R. § 1.56(c). Individuals other than the attorney, agent, or inventor, who are "substantively involved in the preparation or prosecution of the application," may comply with their duty of candor by disclosing known material information to one of the attorney, agent, or inventor. 37 C.F.R. § 1.56(d).

If an individual who is substantively involved in the preparation or prosecution of an application fails to comply with his duty of candor, then that individual's misconduct is chargeable to the applicant for the patent, and the applicant's patent is held unenforceable. Molins, 48 F.3d at 1178; FMC Corp., 835 F.2d at 1415 n.8. In this case, it is undisputed that Dr. Stoddard is not an inventor of the '326 patent, or an attorney or agent who prepared the '326 patent application. Thus, whether Dr. Stoddard owed a duty of candor to the PTO, such that his mis-

conduct would be chargeable to Avid (the applicant for the '326 patent), depends on whether he was an individual who was "substantively involved in the preparation or prosecution of the application" and "associated with the inventor or assignee." 37 C.F.R. § 1.56(c)(3).

What constitutes "substantive[] involve[ment] in the preparation or prosecution of the application," the issue on which this case turns, has not previously been addressed by this court. We read "substantively involved" to mean that the involvement relates to the content of the application or decisions related thereto, and that the involvement is not wholly administrative or secretarial in nature. See Manual of Patent Examining Procedures § 2001.01 (8th ed., rev. 2, May 2004).

In this case, the district court made the following findings of fact with respect to inequitable conduct:

> 1) that Avid was aware of the consequences of selling or offering to sell its reader and tag before filing the '326 patent application, 2) that Avid attempted to file the '326 patent application in advance of the 102(b) date, i.e. within one year after its first sales, but failed, and 3) that Avid intentionally withheld evidence of such sales from the PTO in an effort to deceive the PTO and secure allowance of the '326 patent.[1]

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[1] The district court's use of "Avid" in these findings is not entirely clear because only individuals, rather than corporations such as Avid, owe a duty of candor to the PTO. Exergen Corp. v. Wal-Mart Stores, Inc., 575 F.3d 1312, 1328 (Fed. Cir. 2009); Manual of Patent Examining Procedures § 2001.01 (explaining

Inequitable Conduct Order at 7. Based on these findings, the court concluded that Avid acted with deceptive intent during prosecution of the '326 patent. Id. at 8.

In support of its inequitable conduct finding, the district court also made several findings related specifically to Dr. Stoddard. Id. Based on these findings, the district court concluded that Dr. Stoddard was "substantively involved" within the meaning of 37 C.F.R. § 1.56(c)(3), such that he owed a duty of candor to the PTO.

The district court's fact findings related to Dr. Stoddard include: the nature of his position as president and founder of Avid, that Avid is a closely held company, and that Stoddard hired the inventors to reduce his encrypted chip concept to practice. Id. These facts establish that Dr. Stoddard was associated with the inventors of the '326 patent and with the assignee, Avid, in accordance with the latter requirement of § 1.56(c)(3).

With respect to the first requirement of § 1.56(c)(3), requiring that the individual be substantively involved in the preparation or prosecution of the application, the district court found that Dr. Stoddard was "involved in all aspects of the company's operation, from marketing and sales to research

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that "the duty applies only to individuals, not to organizations"). Accordingly, only individuals can breach that duty and give rise to a finding of inequitable conduct. Id. Although the district court opinion mentions a few different individuals, it appears that all of its inequitable conduct conclusions with respect to "Avid" refer to the conduct of Dr. Stoddard that is imputed to Avid. See Avid Identification Sys. Inc. v. Crystal Import Corp., No. 2:04-CV-183, slip op. at 8 (E.D. Tex. Sept. 28, 2007) ("Inequitable Conduct Order").

and development." Inequitable Conduct Order at 8. Dr. Stoddard's involvement in "all aspects" of Avid, including its research and development, contributes to a reasonable inference that he was also involved in the preparation of the patent application relating to that research. That this fact would contribute to such an inference is especially reasonable here, since the '326 patent was directed to the system that fulfilled Dr. Stoddard's personal mission and the purpose for which his company was created.

The district court also cited two communications related to Dr. Stoddard's substantive involvement in patent matters. See Def. Trial Ex. #27 and Def. Trial Ex. #251. One communication was from an inventor named in the '326 patent and contained content for a European patent application. Dr. Stoddard was one of two recipients of this communication, the other being the European prosecuting attorney. The European patent application was the international phase of the '326 patent application. The other communication was a note from the same inventor to Dr. Stoddard advising him to check with Avid's European patent attorney before demonstrating any of Avid's technology, as it might affect Avid's patent rights in Europe.

The district court discussed these documents and found that they also contributed to an inference that Dr. Stoddard was substantively involved in patent matters related to the identification chip system. The documents related to the European filing refer to the same subject matter as the '326 patent, and preparations for both patent applications were underway at roughly the same time. Given the nature and content of these communications, and the district court's findings with respect to Dr.

Stoddard's role in the company, the inference that Dr. Stoddard was similarly involved in the '326 patent application is reasonable and the finding of substantive involvement is not clearly erroneous.

Additionally, the district court determined that Dr. Stoddard's testimony at trial was not credible, his memory of facts was suspiciously selective, and he refused to acknowledge certain incontrovertible events.[2] See Inequitable Conduct Order at 4. The district court's findings with respect to Dr. Stoddard's lack of credibility as a witness cast doubt on Dr. Stoddard's assertion that he did not understand the claimed technology and was not involved in the preparation of the '326 patent application.

Our conclusion that the district court's duty of candor analysis was not clearly erroneous is reinforced by our own review of the entire record and relevant case law, which reveals sufficient reason to uphold the district court's judgment. Cf. Bruno Indep. Living Aids, Inc. v. Acorn Mobility Servs. Ltd., 394 F.3d 1348, 1354 (Fed. Cir. 2005) ("While the district court indeed provided little explicit support for its finding of intent, it is well established that, as an appellate tribunal, we review judgments, not opinions. We therefore focus our review on whether there is sufficient evidence in the record to sustain the judgment of intent to deceive the PTO." (citing Black v. Cutter Labs., 351 U.S. 292, 297 (1956); Stratoflex, Inc. v. Aeroquip Corp., 713 F.2d 1530, 1540 (Fed. Cir. 1983); Consol. Aluminum Corp. v. Fo-

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[2] For example, Dr. Stoddard was Avid's main fact witness on the issue of patent validity, and the district court explicitly discredited the portions of his testimony relevant to the validity of the '326 patent under § 102(b).

seco Int'l Ltd., 910 F.2d 804, 814 (Fed. Cir. 1990) ("An appellate court need not close its eyes to the record where . . . there is a way clearly open to affirm the district court's action.")))).

Dr. Stoddard was personally responsible for the disputed prior art demonstrations. He was in contact with at least one of the inventors during the preparation of the '326 patent application regarding patent-related matters. He was also advised by that inventor to check with a patent attorney before disclosing information about Avid's technology to the public. He signed the small entity status affidavit shortly before the application was filed. These facts lend further support to the inference that Dr. Stoddard was substantively involved in preparations for filing the application, and demonstrate that Dr. Stoddard spoke for Avid in representations to the PTO.

Although Dr. Stoddard did not contribute enough to the patentable features of the claims to be considered an inventor, the functionality of the system described in the '326 patent was his idea. The inventors he hired were specifically instructed to reduce his idea to practice. Dr. Stoddard's inclusion on substantive communications related to the preparation of the European counterpart to the '326 patent application further support the more general conclusion that he was substantively involved in preparation of the patent application covering the system he conceived.

Under the terms of Rule 56, the PTO does not assign a duty of candor to persons not associated with a patent application, or to those involved only in a ministerial capacity. Such persons would not be in a position to appreciate that their conduct or

knowledge might be relevant to the PTO.[3] The district court did not clearly err in determining that Dr. Stoddard was not such an exempt person. Indeed, to accept Avid's argument that a person such as Dr. Stoddard owes no duty of candor would allow intentional deception by the types of people most likely to have knowledge of § 102(b) prior art, i.e., those on the commercial side of patented product development.

The dissent errs by conflating Rule 56's requirements of substantive involvement and knowledge that the undisclosed information is material. According to the dissent, the "substantively involved" has a knowledge requirement; the person must be "able to assess the materiality of any information [that person] may know or discover." Dissent at 4. The dissent's proposed definition fails, however, because that is not what Rule 56 says. Involvement and knowledge are separate inquiries under Rule 56, located in separate sections (subsections (c) and (a), respectively) and serving different purposes. Under § 1.56(c), we ask whether a person is substantively involved with the preparation or prosecution of a patent application in order to determine whether

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[3] Our holding does not automatically extend the duty of candor to all individuals who contact one of the inventors or sign the small entity affidavit. Nor does our holding extend the duty generally to all individuals on the commercial side of product development. We simply hold that the district court may properly consider a variety of factors, such as an individual's position within the company, role in developing or marketing the patented idea, contact with the inventors or prosecutors, and representations to the PTO in deciding whether that individual is "substantively involved" within the meaning of § 1.56(c)(3) and thus owes a duty of candor to the PTO.

that person is associated with the filing and prosecution of a patent application, and thus owes a duty of candor to the PTO under § 1.56(a). Nothing in § 1.56(c)(3) requires, as the dissent suggests, the individual be "able to assess the materiality of any information [he] may know or discover" in order to be substantively involved. Dissent at 4. Rather, what a person knew or should have known only matters after he is found to be "associated with the filing and prosecution of a patent application," such as by being substantively involved. Id. § 1.56(a).

In other words, a finding that an individual was "substantively involved in the preparation or prosecution" of a patent application only determines that the individual owed a duty of candor to the PTO. Whether the individual involved in the alleged misconduct owed a duty of candor to the PTO is merely a threshold inquiry in the inequitable conduct analysis. Once a court finds that the individual had a duty of candor, the court must proceed to the dual prongs of materiality and deceptive intent, to determine whether that duty was violated. This subsequent analysis, in particular the deceptive intent inquiry, encompasses the concerns raised by the dissent. If an individual is unable to assess the materiality of the information at issue, then he would lack the deceptive intent required to find that he committed inequitable conduct.[4] Therefore, the dissent's main objection to our "substantive involvement" test is misplaced.

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[4] As occurred here, the district court may find the same evidence probative of whether a person was "substantively involved" and whether that person acted with deceptive intent. The inquiries, however, are distinct.

Based on the district court's findings and on the entirety of the evidence of record, we hold that the district court did not abuse its discretion in rejecting Avid's argument that Dr. Stoddard owed no duty of candor to the PTO. Dr. Stoddard withheld material information regarding his sales demonstrations of products that reflected the closest prior art to the claims of the '326 patent. Dr. Stoddard acted with deceptive intent. Dr. Stoddard's actions are imputed to Avid, the patent holder. We therefore affirm the district court's judgment that Avid's '326 patent is unenforceable due to inequitable conduct.

AFFIRMED

COSTS

Each party shall bear its own costs.

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

2009-1216, -1254

AVID IDENTIFICATION SYSTEMS, INC.,

Plaintiff-Appellant,

v.

THE CRYSTAL IMPORT CORPORATION, DATAMARS SA and DATAMARS, INC.,

Defendants.

Appeal from the United States District Court for the Eastern District of Texas in case no. 2:04-CV-183, Judge T. John Ward.

LINN, Circuit Judge, concurring-in-part and dissenting-in-part.

I am pleased to join Parts I and IIA of the majority opinion concluding that there remains a live controversy between the parties on the issue of unenforceability of U.S. Patent No. 5,235,326 ("the '326 patent") and affirming the district court's materiality ruling. I respectfully dissent, however, from Part IIB affirming the district court's ruling that the duty of candor required by 37 C.F.R. § 1.56(c)(3) applies to Dr. Stoddard.

This case involves the application of 37 C.F.R. § 1.56 ("Rule 56"), a rule adopted by the United States Patent and Trademark Office ("PTO") that places on defined individuals a duty of candor and good faith, including a duty of disclosure, in dealing

with the PTO during the period of examination of a patent application. 37 C.F.R. § 1.56(a). These individuals include: (1) each named inventor; (2) each attorney or agent who prepares or prosecutes the application; and (3) "[e]very other person who is substantively involved in the preparation or prosecution of the application and who is associated with the inventor, with the assignee or with anyone to whom there is an obligation to assign the application." 37 C.F.R. § 1.56(c). Since Dr. Stoddard is not a named inventor or an attorney or agent associated with the filing of the '326 patent, the question presented in this case turns on the application of Rule 56(c)(3), which, as the majority recognizes, has never been explicitly addressed by this Court.

Rule 56(c)(3) lists two criteria that must be met before imposing a duty of disclosure on an individual. First, the individual must be "substantively involved in the preparation or prosecution of the application." 37 C.F.R. § 1.56(c)(3). Second, the individual must be "associated with the inventor, with the assignee or with anyone to whom there is an obligation to assign the application." Id. I agree with the majority that Dr. Stoddard was associated with the inventors of the '326 patent and that the second prong of Rule 56(c)(3) is met in this case. Where I part company with the majority is the conclusion that Dr. Stoddard was "substantively involved in the preparation or prosecution of the ['326 patent] application" as required by the first prong of Rule 56(c)(3).

We review a district court's determination of inequitable conduct under an abuse of discretion standard. Kingsdown Med. Consultants Ltd. v. Hollister Inc., 863 F.2d 867, 876 (Fed. Cir. 1988) (en banc). "We will not substitute our judgment for that

of the trial court in relation to the discretionary ruling of inequitable conduct unless the appellant establishes that the ruling is based upon clearly erroneous findings of fact or a misapplication or misinterpretation of applicable law or that the ruling evidences a clear error of judgment on the part of the district court." Brasseler, U.S.A. I, L.P. v. Stryker Sales Corp., 267 F.3d 1370, 1379 (Fed. Cir. 2001). In my view, the district court both misapplied Rule 56(c)(3) and clearly erred in finding that Dr. Stoddard was "substantively involved in the preparation or prosecution of the application." Accordingly, I would reverse the determination that the '326 patent is unenforceable due to inequitable conduct.

I. Who Owes the Duty of Candor

The majority correctly recognizes that the duty of candor is codified at 37 C.F.R. § 1.56 and includes the duty to disclose to the PTO all information that is material to the issue of patentability known to certain individuals. 37 C.F.R. § 1.56(a). As the majority further notes, the question in this case is to whom does the duty of candor extend under the language "every other person who is substantively involved" in Rule 56(c)(3)?

The majority holds that a district court may consider an "individual's position within the company, role in developing or marketing the patented idea, contact with the inventors or prosecutors, and representations to the PTO" when deciding whether an individual is "substantively involved," regardless of whether those factors relate to the person's awareness of the merits of the application in question or engagement in any specific activity relating to that application. Majority Op. at 12, 14, 15 n.4. The majority goes even further to extend the duty gener-

ally to "those on the commercial side of patented product development," because they are "the types of people most likely to have knowledge of § 102(b) prior art." Majority Op. at 15. With all due respect, I find no basis in the rule or in any policy for such an expansive reading of Rule 56(c)(3).

The obligation imposed by the duty of candor is to disclose to the PTO information "material to patentability." 37 C.F.R. § 1.56(a). Because one cannot assess whether information is "material to patentability" without knowledge of the technical details or legal merits of an application, it should be self-evident that when Rule 56(c)(3) talks about persons who are "substantively involved" it is referring to those persons who are both (1) engaged in the preparation or prosecution of an application and (2) sufficiently apprised of the technical details or legal merits of the application as to be able to assess the materiality of any information they may know or discover as the application is prepared or prosecuted. This naturally excludes not only the "typists, clerks, and similar personnel who assist with the application" in a non-substantive way as described in the Manual of Patent Examining Procedure ("MPEP") § 2001.01, but also corporate officers, managers, employees, and all other individuals who are neither aware of the technical details or legal merits of the application nor engaged in the preparation or prosecution thereof. Simply having a general interest or even a financial interest in the invention or a general awareness of the application is not enough.

This interpretation does not improperly import into Rule 56(c)(3) the knowledge component from materiality, as suggested by the majority. Majority Op. at 15. Instead, it recognizes that Rule

56(c)(3) uses the phrase "substantively involved." The use of the word "substantive[]" limits the set of individuals who have a duty to disclose to those who possess a specific understanding of the substance of the application. This has nothing to do with the question of whether any particular piece of information is material, but relates to the separate question of whether a person is substantively involved; i.e., sufficiently apprised of the details of the application as to be in a position to make that assessment. Reading the separate parts of Rule 56 in harmony is not improperly conflating them, as the majority suggests.

The majority reads "substantive[]" to mean that the involvement "relates to the content of the application or decision related thereto, and that the involvement is not wholly administrative or secretarial in nature." Majority Op. at 10 (citing MPEP § 2001.01 (8th ed., rev.2, May 2004)). Such an expansive interpretation is nowhere suggested in the cited section of the MPEP or anywhere in Rule 56. The PTO could easily have written a rule as broad as that set forth by the majority. However, the PTO purposefully limited the duty of disclosure to material information in order to limit the submission of irrelevant and cumulative information that could overwhelm the PTO and obscure potentially important disclosures. See Duty of Disclosure, 42 Fed. Reg. 5589 (Jan. 28, 1977) ("'Relevant' is replaced by 'material' because the latter term connotes something more than a trivial relationship."); MPEP § 2001 (8th ed., rev.2, May 2004) ("There is no duty to submit information which is not material to the patentability of any existing claim."). By extension, the PTO also limited the duty to those individuals in a position to determine what disclosures are material—those sub-

stantively involved in the preparation or prosecution of the application.

While I do not quibble about the majority's characterization of this as a threshold inquiry, calling it such does not justify writing "substantively" out of the rule and lowering the threshold to extend the duty to disclose to everyone having some relationship to the invention or application no matter how peripheral or tangential it may be to the substance of the application. The majority's interpretation places on persons who are not in a position to assess materiality an obligation to disclose information the relevance of which they have no way of determining. The effect is either to encourage the filing of information regardless of its materiality, just to be on the safe side, or to widen the net of inequitable conduct that may be cast by accused infringers after the fact in litigation. Neither result is desired or warranted and cannot be justified on the rationalization that Rule 56(c)(3) is simply an innocuous threshold inquiry. Indeed, this court has held that the identity of the individual accused of inequitable conduct is essential to the determination of whether the patent can be found unenforceable. See Exergen Corp. v. Wal-Mart Stores, Inc., 575 F.3d 1312, 1330 (Fed. Cir. 2009) ("The pleading, however, provides no factual basis to infer that any specific individual, who owed a duty of disclosure in prosecuting the '685 patent, knew of the specific information in the [prior art] patents that is alleged to be material to the claims of the '685 patent.").

Finally, the majority suggests that intent should solve the concern I have expressed. Majority Op. at 16. With all due respect, that suggestion is premised on circular reasoning that ignores Rule

56(c)(3) entirely. If intent was all that mattered, there would be no need to be concerned at all about who had the duty to disclose.

II. Dr. Stoddard's Involvement

In this case, there is no evidence that Dr. Stoddard was substantively involved in the preparation or prosecution of the application for the '326 patent. Specifically, there is no evidence to even suggest that Dr. Stoddard had any knowledge of the technical details or legal merits of the application for the '326 patent while it was being prepared or prosecuted. I find it significant that no document or testimony shows that Dr. Stoddard participated in any inventor meeting with patent counsel, received a draft of the application prior to filing, or received any draft response of an office action to the PTO during prosecution or was otherwise apprised of the technical details or legal merit of the application. In fact, Robert Malm, the prosecuting attorney of the '326 patent, testified that Dr. Stoddard was not substantively involved in the preparation or prosecution of the patent. J.A. 14100, 14104 (Malm's testimony stating that he did not have any conversations with Dr. Stoddard about patent prosecution matters and that no individual at Avid reviewed responses before they were filed with the PTO).

The majority cites two communications as evidence sufficient to support the district court's inference that Dr. Stoddard was substantively involved in the '326 application. Majority Op. at 12-13. Neither of these documents actually related to the '326 application. The first memo, addressed to Dr. Stoddard from a named inventor of the '326 patent, mentioned only the possible effect of Avid sales on a European patent application. The second memo, which indi-

cated that Dr. Stoddard was provided a copy, was addressed to a patent attorney who was never involved in the '326 patent application and included new material for an unspecified patent application. This memo did not give any indication that it was in any way related to the '326 patent application. These documents do not support the conclusion that Dr. Stoddard had any awareness of the details or merits of the '326 application.

The majority incorrectly points to Dr. Stoddard's involvement in Avid's research and development as a factor indicating that he was substantively involved in the preparation of the patent application relating to that research. Majority Op. at 12. Dr. Stoddard's research activities are simply evidence that Dr. Stoddard was "associated with the inventor, with the assignee or with anyone to whom there is an obligation to assign the application." 37 C.F.R. § 1.56(c)(3). Because it is the actual substance of the application that defines what constitutes "material" information that the individual must disclose to the PTO, Rule 56 requires more than just this association. See 37 C.F.R. § 1.56(b)(1), (c)(3).

The majority also ascribes significance to the fact that Dr. Stoddard was personally responsible for certain prior art demonstrations. Majority Op. at 14. However, this fact does not contribute to a finding that Dr. Stoddard was substantively involved in the patent application. While employees who perform product demonstrations may well be the individuals most likely to have knowledge of prior art, that knowledge, in itself, does not give rise to a duty of disclosure to the PTO. See Kemin foods, L.C. v. Pigmentos Vegetales Del Centro S.A. de C.V., 464

F.3d 1339, 1346 (Fed. Cir. 2006) (affirming district court's refusal to find inequitable conduct based on the failure of an employee scientist—not a named inventor—to disclose a prior art reference noting that he was "only tangentially involved in prosecution" of the patent). Unless such an individual also has knowledge of the technical details or legal merits of the patent application and is engaged in the preparation or prosecution thereof, he is not bound by Rule 56. Moreover, while the district court found Dr. Stoddard's testimony on the issue of prior art demonstrations was less than candid, that neither shows that he was involved in the '326 patent application nor demonstrates that whatever involvement he may have had was substantive in any way.

Finally, Dr. Stoddard's signature on the small entity status affidavit, declaring that Avid is a small business concern eligible for reduced patent application fees, provides no evidence that he had any knowledge of the substantive details contained in the patent application. The small entity status document relates only to information about the corporation and not to anything material to patentability.

The majority states that Dr. Stoddard is substantively involved in the application for the '326 patent based on the entirety of the evidence in the record. However, as noted above, none of the individual pieces of evidence the majority cites as the basis for this finding—Dr. Stoddard's role in the company, the two memos regarding patent prosecution, the small entity status affidavit, Dr. Stoddard's involvement in the product demonstrations, or Dr. Stoddard's lack of credibility at trial—show that Dr. Stoddard was even peripherally involved with the actual application at issue. Simply combining the evidence does not

change the fact that there is nothing in the record showing that Dr. Stoddard had anything at all to do with the application for the '326 patent.

For the foregoing reasons, it is my view that the evidence does not support a finding that Dr. Stoddard was substantively involved in the preparation or prosecution of the '326 patent. He was neither engaged in the preparation or prosecution of the '326 patent application nor sufficiently apprised of its technical details or legal merits to allow him to assess what information would be considered material to its patentability. Because the district court misapplied Rule 56(c)(3) and clearly erred in extending the duty of disclosure to Dr. Stoddard, I would reverse the finding that the '326 patent is unenforceable due to inequitable conduct.

APPENDIX B

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

AVID IDENTIFICATION SYSTEMS, INC.,

Plaintiff-Appellant,

v.

THE CRYSTAL IMPORT CORPORATION, DATAMARS SA AND DATAMARS, INC.,

Defendants.

2009-1216, -1254

Appeals from the United States District Court for the Eastern District of Texas in case no. 2:04-CV-183, Judge T. John Ward.

ON PETITION FOR PANEL REHEARING AND REHEARING EN BANC

Before RADER, *Chief Judge*,* NEWMAN, MAYER,** LOURIE, BRYSON, GAJARSA, LINN, DYK, PROST, and MOORE, *Circuit Judges*.

PER CURIAM.

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* Randall R. Rader assumed the position of Chief Judge on June 1, 2010.

** Haldane Robert Mayer did not participate in the poll.

NEWMAN, *Circuit Judge*, dissents from the denial of the request for a stay.

JOHN W. THORNBURGH, Fish & Richardson P.C., of San Diego, California, filed a combined petition for panel rehearing and rehearing en banc for plaintiff-appellant. With him on the petition were JUANITA R. BROOKS, ROGER A. DENNING, MICHAEL A. AMON, and BRIAN WACTER.

K.T. CHERIAN, Howrey LLP, of San Francisco, California, for amicus curiae Allflex USA, Inc. With him on the motion was RICHARD L. STANLEY, of Houston, Texas.

ORDER

A combined petition for panel rehearing and rehear-ing en banc was filed by Plaintiff-Appellant, Avid Identification Systems, Inc. ("Avid"). Separately, Avid filed a motion to join in the pending en banc review in *Therasense v. Becton Dickinson and Co.*, 2008-1511, -1512, -1513, -1514, -1595 or, alternatively, to stay the mandate of this case pending disposition of *Therasense*. The panel denied Avid's motion. The combined petition and motion were referred to the circuit judges who are in regular active service. A poll was requested, taken, and failed.

Upon consideration thereof,

IT IS ORDERED THAT:

(1) The motion to join in the pending en banc review in *Therasense v. Becton Dickinson and Co.*, 2008-1511, -1512, -1513, -1514, -1595 or, alternatively, to stay the mandate of this case is denied.

(1) The petition for panel rehearing is denied.

(2) The petition for rehearing en banc is denied.

(3) The mandate of the court will issue on July 23, 2010.

FOR THE COURT

July 16, 2010
Date

/s/ Jan Horbaly
Jan Horbaly
Clerk

cc: John W. Thornburgh, Esq.
K.T. Cherian, Esq.

United States Court of Appeals for the Federal Circuit

AVID IDENTIFICATION SYSTEMS, INC.,
Plaintiff-Appellant,

v.

THE CRYSTAL IMPORT CORPORATION, DATAMARS SA AND DATAMARS, INC.,
Defendants.

2009-1216,-1254

Appeal from the United States District Court for the Eastern District of Texas in Case No. 2:04-CV-183, Judge T. John Ward.

NEWMAN, *Circuit Judge*, dissenting from denial of the request for a stay.

Avid moves this court to stay its petition for rehearing en banc until our en banc consideration of *Therasense, Inc. v. Becton, Dickinson & Co.*, 593 F.3d 1289 (Fed. Cir. 2010), which bears on the precise issue of Avid's appeal, that is, the criteria for "inequitable conduct" during patent prosecution. I would grant this stay. The law as applied in *Avid* is subject to conflicting precedent, a conflict whose resolution is reasonably likely to alter the result. Thus it is prudent, and just, to hold Avid's petition while the law is clarified.

The court today has declined to do so, rendering the subject patent permanently unenforceable, although the patent was found valid on the same prior art that is the basis for its unenforceability.

The practice of staying the finality of related cases while the law is clarified is not unusual. The Supreme Court often holds petitions for writ of certiorari in cases involving the same issue being decided in another case before the Court. As explained in *Lawrence v. Chater*, "'We fulfill our judicial responsibility by instructing the lower courts to apply the new rule retroactively to cases not yet final.'" 516 U.S. 163, 167 (1996) (quoting *Griffith v. Kentucky*, 479 U.S. 314, 323 (1987)). Thus the Supreme Court "regularly hold[s] cases that involve the same issue as a case on which certiorari has been granted and plenary review is being conducted in order that (if appropriate) they may be [granted, vacated and remanded] when the case is decided." *Id.* at 181 (Scalia, J., dissenting on other grounds). The Court elaborated that this practice conserves judicial resources while alleviating the potential for unequal treatment of pending cases raising similar issues. *Id.* at 167.

Such consideration is equally salutary upon en banc review in this court, when the purpose of the review is to establish consistent national law, and other pending cases are reasonably likely to be affected. As applied to *Avid*, it is grievously unjust to eradicate this patent on grounds that may soon be changed by the en banc court. Our Order in *Therasense* is of broad range, in the context of "inequitable conduct" in patent prosecution, and includes the following questions concerning materiality:

> Q3. What is the proper standard for materiality? What role should the United States Patent and Trademark Office's rules play in defining materiality? Should a finding of materiality require that but for the alleged misconduct, one or more claims would not have issued?

Therasense, Inc. v. Becton, Dickinson & Co., Nos. 2008-1511, -1512,-1513,-1514, -1595, 2010 WL 1655391, at *1 (Fed. Cir. Apr. 26, 2010) ("*Order*"). Extensive *amicus curiae* participation has ensued, for the burden on the innovation community of this court's inconsistent rulings has achieved national notoriety. *See, e.g.*, 155 CONG. REC. S2715 (daily ed. Mar. 3, 2009) (statement of Sen. Hatch) ("The inequitable conduct defense is frequently pled, rarely proven and always drives up the cost of litigation tremendously.").

This court held that Dr. Stoddard's demonstration during the Livestock Committee trade show of what the panel calls "some of Avid's technology," and Avid calls a "precursor product," was material to patentability and that Dr. Stoddard was required to assure that the patent examiner was informed.[1] According to the panel opinion, the district court "found

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[1] The motion papers describe the demonstration as two radio frequency components called "the e5500B integrated circuit and the Standard Reader." These items, and their demonstration, were presented in the jury trial and were found not to invalidate the patent in suit. *See* J.A. 30 (Jury Verdict); *Avid Identification Sys., Inc. v. Crystal Import Corp.*, No. 2:04-CV-183, 2007 WL 2901415, at *1 (E.D. Tex. Sept. 28, 2007) ("*Avid I*") ("The jury upheld the validity of the asserted claims of the '326 patent, found the defendants liable for the willful infringement of claims of each patent, and found the defendants liable on Avid's unfair competition claim.").

that the precursor product, while not invalidating, reflected the closest prior art, and thus was highly material to patentability." *Avid Identification Sys., Inc. v. Crystal Import Corp.*, 603 F.3d 967, 973 (Fed. Cir. 2010) ("*Avid II*"). While "closest prior art" has been discussed in the context of whether certain information is cumulative of that already presented to an examiner, *see, e.g.*, *AstraZeneca Pharms. LP v. Teva Pharms. USA*, 583 F.3d 766, 773-75 (Fed. Cir. 2009), it has never been the law that information is "highly material" simply because it is "closest." It is not disputed that whatever was demonstrated was not an invalidating disclosure of the patented invention, and not a sale or offer to sell the patented invention, for the jury found that the demonstration at the Livestock Committee was not invalidating. *See Avid I*, 2007 WL 2901415, at *1.

Dr. Stoddard, who is the president of Avid, is a veterinarian whose principal occupation is running an animal hospital; he is not an electronics engineer and not a chip designer and not an inventor of the patented device and not a lawyer. *See Avid II*, 603 F.3d at 970. On the undisputed fact that the challenged information is not invalidating, the court's holding of inequitable conduct is sufficiently questionable to warrant a stay until this court resolves the larger issues before us, including the en banc Order's query: "Should a finding of materiality require that but for the alleged misconduct, one or more claims would not have issued?" *Order*, 2010 WL 1655391, at *1. It is at least possible that the court will answer this question in the affirmative. Although I do not venture to guess how *Therasense* will fare overall, it is not unreasonable to expect that it may affect the *Avid* decision.

The *Avid* panel applied the former Rule 56 standard of materiality as stated in *J.P. Stevens & Co. v. Lex Tex Ltd.*, 747 F.2d 1553, 1559 (Fed. Cir. 1984), although this standard was abandoned by the PTO in 1992. The information here criticized does not appear to violate the current Rule 56 standard, and Dr. Stoddard is not within the cadre upon whom is placed the obligation of understanding the patent law, as Judge Linn explained in his dissent. I must, respectfully, dissent from the court's refusal to stay this appeal in view of the en banc proceeding in *Therasense*.

APPENDIX C

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF TEXAS
MARSHALL DIVISION

CASE NO. 2:04-CV-183

AVID IDENTIFICATION SYSTEMS, INCORPORATED,

vs.

PHILLIPS ELECTRONICS NORTH AMERICA CORPORATION, ET AL.

MEMORANDUM OPINION AND ORDER

1. Introduction

Datamars SA ("Datamars") and The Crystal Import Corporation ("Crystal") (collectively, "the defendants"), have filed a motion (#377) to render U.S. Patent No. 5,235,326, which is assigned to the plaintiff, Avid Identification Systems, Incorporated ("Avid"), unenforceable for inequitable conduct. For the reasons discussed herein, the court grants the defendants' motion (#377) and declares U.S. Patent No. 5,235,326 unenforceable.

2. Background Facts and Procedural Posture

The '326 patent, entitled "Multi-Mode Identification System," was filed on August 15, 1991,[1] by inventors Michael Beigel, Nathaniel Polish, and Robert Malm. In addition to his inventive capacity, Robert Malm also served as the prosecuting attorney for the '326 patent. According to assignment records at the U.S. Patent and Trademark Office ("PTO"), each inventor assigned his prospective rights in the '326 patent to Avid[2] in August 1991. Dr. Hannis Stoddard is the president of Avid, and was acting in this capacity during the prosecution of the '326 patent.

The '326 patent is directed to radio frequency identification ("RFID") tags and readers, the two components to an electronic identification system. This type of identification system has a number of applications, including the identification of pets and livestock. For example, a unique tag can be implanted in an animal, such as a bird, and a reader can thereafter identify the animal by communication with and recognition of the unique tag identifier. A key object of the '326 patent is to provide a single reader that will read tags of different designs and manufacturers.

At trial, Avid accused the defendants of unfair competition, and of infringing U.S. Patent Nos.

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[1] The 102(b) critical date for the '326 patent is therefore August 15, 1990.

[2] The inventors originally assigned their interests to Avid Marketing, Inc. In August 1999, Avid Marketing, Inc. assigned its rights in the '326 patent to Avid Identification Systems, Inc. The court's use of the term "Avid" encompasses both corporate entities.

5,214,409, 5,499,017, and 5,235,326 ("the '326 patent"). In response, the defendants alleged that the '326 patent was invalid in light of pre-critical date reader and tag sales by Avid. The jury upheld the validity of the asserted claims of the '326 patent, found the defendants liable for the willful infringement of claims of each patent, and found the defendants liable on Avid's unfair competition claim. After the jury trial, the parties agreed to forego a bench trial on inequitable conduct and submitted this issue to the court on the trial record, with supplemental briefing by the parties. The defendants' inequitable conduct claim is now ripe for decision.

3. The Law of Inequitable Conduct

"A patent may be rendered unenforceable for inequitable conduct if an applicant, with intent to mislead or deceive the examiner, fails to disclose material information or submits materially false information to the PTO during prosecution." *Digital Control Inc. v. Charles Mach. Works*, 437 F.3d 1309, 1313 (Fed. Cir. 2006); *see also* 37 C.F.R. § 1.56(a) ("Each individual associated with the filing and prosecution of a patent application has a duty of candor and good faith in dealing with the Office, which includes a duty to disclose to the Office all information known to that individual to be material to patentability as defined in this section.").

The materiality of information withheld during prosecution may be judged by the "reasonable examiner" standard. *See id.* at 1316. That is, "[m]ateriality . . . embraces any information that a reasonable examiner would substantially likely consider important in deciding whether to allow an application to issue as a patent." *Akron Polymer Container Corp. v. Exxel Container, Inc.*, 148 F.3d 1380,

1382 (Fed. Cir. 1998) (citations omitted). Moreover, "[i]nformation concealed from the PTO may be material even though it would not invalidate the patent." *Li Second Family LP v. Toshiba Corp.*, 231 F.3d 1373, 1380 (Fed. Cir. 2000). "However, a withheld otherwise material [piece of information] is not material for the purposes of inequitable conduct if it is merely cumulative to that information considered by the examiner." *Digital Control Inc. v. Charles Mach. Works*, 437 F.3d 1309, 1319 (Fed. Cir. 2009). "[T]he scope and content of prior art and what the prior art teaches are questions of fact." *Id.*

"The intent element of the offense is . . . in the main proven by inferences drawn from facts, with the collection of inferences permitting a confident judgment that deceit has occurred." *Akron Polymer*, 148 F.3d at 1385. "However, inequitable conduct requires not intent to withhold, but rather intent to deceive. Intent to deceive cannot be inferred simply from the decision to withhold [information] where the reasons given for the withholding are plausible." *Dayco Products, Inc. v. Total Containment, Inc.*, 329 F.3d 1358, 1367 (Fed. Cir. 2003). In addition, "a finding that particular conduct amounts to 'gross negligence' does not of itself justify an inference of intent to deceive; the involved conduct, viewed in light of all the evidence, including evidence indicative of good faith, must indicate sufficient culpability to require a finding of intent to deceive." *Kingsdown Med. Consultants, Ltd. v. Hollister Inc.*, 863 F.2d 867, 876 (Fed. Cir. 1988) (en banc in relevant part).

"The party asserting inequitable conduct must prove a threshold level of materiality and intent by clear and convincing evidence." *Digital Control*, 437 F.3d at 1313. "The court must then determine

whether the questioned conduct amounts to inequitable conduct by balancing the levels of materiality and intent, 'with a greater showing of one factor allowing a lesser showing of the other.'" *Id.* (quoting *Union Pac. Res. Co. v. Chesapeake Energy Corp.*, 236 F.3d 684, 693 (Fed. Cir. 2001)).

4. Discussion

Avid argues that its Standard Reader and tag incorporating the e5500B integrated circuit are not material because there is no evidence that these products were sold or publicly demonstrated in the United States prior to the critical date for the '326 patent. The court rejects this argument and finds that the Standard Reader and e5500B integrated circuit and tag are 102(b) prior art.[3] As an initial matter, the court finds that Dr. Hannis Stoddard's trial and deposition testimony is simply not credible on key issues. This finding flows from Stoddard's conspicuous inability to recall facts while testifying, combined with his refusal to acknowledge incontrovertible events.[4] Because Stoddard's testimony is

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[3] Additionally, to the extent Avid argues that its reader and tag were not successfully reduced to practice until after the critical date, and that any such pre-critical date sales were therefore experimental, the court finds that a reasonable examiner would find such information material to patentability because it is relevant to determining whether the patented devices were on sale before the critical date. *See Destron/IDI, Inc. v. Electronic Identifications Devices, Inc.*, Nos. 96-1382, 96-1383, 96-1392, 96-1393, 96-1394, 96-1395, 1997 WL 414646, at *4 (Fed. Cir. July 24, 1997) (unpublished).

[4] Stoddard, for example, refused to acknowledge that he even gave an interview to a newspaper prior to the close of September1989, where he indicated that he had implanted 5,000 tags in prize hunting falcons. *See* Brief of Defendants, Exhibit J at

not dependable, the court must look to Avid's corporate documents, which provide the court with a contemporaneous record of the company's activities.

One such document is a facsimile transmission, dated April 4, 1990, from Doug Hull to R. Sander and H. Meier. *See* DTX 18. The facsimile provides proof, nearly conclusive, that Avid was offering its Standard Reader and e5500B tag for sale in the United States well in advance of the critical date. The facsimile states:

> Hannis is demonstrating our system at the U.S. Livestock Committee on electronics identification, along with IDI and Texas Instruments. Interesting to learn that T.I. did not bring any product for demo and explained that it was not working as of yet. IDI was shocked when Hannis pulled out our "SEXY" reader and e5500B tag and read the AVID code. . . . Must expedite this 100 wafer run as we are re-

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122-23 (transcript of Stoddard's trial testimony); DTX 11. The record however, indicates that Avid had received a copy of the article as of September 29, 1989. For example, the facsimile number at the top of DTX 11, which is dated September 29, 1989, matches the facsimile number for Avid's home office, which is displayed on Avid's letterhead. *See* DTX 18. It is implausible, under these facts, for Stoddard to assert that he did not at least receive a copy of the article. Moreover, Stoddard offered no explanation as to how the reporter would have arrived at the quotes attributable to him. He also offered no explanation why he and Avid would have maintained a copy of this article for the length of time they did if it were truly inaccurate.

Stoddard also contended that in 1989, Avid was still selling relabeled chips manufactured by IDI. His testimony in that regard conflicts with sworn testimony he gave in another lawsuit. In that case, he testified that Avid had stopped selling IDI products by 1986 or 1987.

> ceiving many orders for product. . . . Please do all in your power to assist us in getting this wafer run expedited sooner than 1st of July, or we are in trouble. Must have wafers at SVI for assembly not later than June 1st, or we might miss our delivery deadline.

Id.[5] This is but one of many documents that support the court's finding that Avid was offering its Standard Reader and tag for sale in the United States before the critical date of the '326 patent.[6] Such activities are therefore 102(b) prior art.

Avid argues that its Standard Reader and tag incorporating the e5500B integrated circuit were not material to the prosecution of the '326 patent application. Avid's argument confuses anticipation with materiality. "[T]he test for materiality[, however,] is not whether there is anticipation or obviousness but, rather, what a 'reasonable examiner would consider . . . important in deciding whether to allow the appli-

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[5] This document, and its recount of Stoddard's demonstration of the new reader and e5500B tag, contradicts Stoddard's February 21, 2006, declaration filed in this court. In that declaration, Stoddard attested that he "did not demonstrate or sell a Standard Reader prior to August 15, 1990." Stoddard testified however, that no other reader could read the Avid code. *See* Brief of Defendants, Exhibit J at 84-85. As such, the Avid document establishes that Stoddard had demonstrated the Avid reader and e5500B chip well in advance of August 15, 1990.

[6] *See, e.g.*, DTX 19 (April 11, 1990, facsimile from Doug Hull to Eurosil stating "I have just signed up 4 of the largest animal control municipalities in the U.S., and that demand exceeds 150,000 chips, if I can deliver."); DTX 68 (January 31, 1990 facsimile from Michael Beigel regarding Avid parts stating "we need to expedite things, to have parts for 100 (125) readers before FEB 20.").

cation to issue as a patent.'" *A.B. Dick Co. v. Burroughs Corp.*, 798 F.2d 1392, 1397 (Fed. Cir. 1986) (quoting 37 C.F.R. § 1.56(a)); *see also Li Second Family Ltd. Partnership v. Toshiba Corp.*, 231 F.3d 1373, 1380-81 (Fed. Cir. 2000).

In view of the trial record, the court finds Avid's non-materiality argument implausible. At trial, for example, the defendants argued that Avid's Standard Reader and tag incorporating the e5500B integrated circuited anticipated the claims of the '326 patent. This issue, which was submitted to the jury, was the subject of contested expert testimony. The volume of expert testimony and amount of trial time spent in this regard demonstrates that these activities were the closest prior art to the '326 patent's disclosure.[7] A reasonable examiner would find such activity extremely important when evaluating patentability. Therefore, the court finds by clear and convincing evidence that Avid's Standard Reader and tag were highly material to the patentability of the '326 patent's claims.

Avid argues that it did not intend to deceive the PTO when it failed to notify the Examiner of its pre-critical date sales activity. "Direct proof of wrongful intent is rarely available but may be inferred from clear and convincing evidence of the surrounding circumstances." *Labounty Mfg., Inc. v. U.S. Int'l Trade Comm'n*, 958 F.2d 1066, 1076 (Fed. Cir. 1992) (citations omitted). In a facsimile dated October 1990,

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[7] In part because the Standard Reader and tag were the closest prior art to the disclosure of the '326 patent, the court finds that such art was not cumulative to other art that was before the Examiner during prosecution of the application that issued as the '326 patent.

Beigel wrote the following to Stoddard, "you should check with Dick Bartz our patent attorney whether selling to the public without a special confidentiality agreement before filing European patent applications will invalidate our chances to get a European patent." *See* DTX 27. Additionally, on January 24, 1991, Beigel wrote to Dick Bartz[8] and Stoddard stating, "[h]ere is the new material for the patent application. We're sorry about the delay in sending it, since that puts us all under more pressure." *See* DTX 251. A hand written note on the correspondence indicates that the new material consisted of an operating manual for Avid's reader. *Id.*

The above passages indicate that Beigel and Stoddard were generally aware that prior sales activity would affect their patent rights, and that sales activity had placed them in a time crunch with respect to filing their patent application. This knowledge, combined with the evidence of Avid's pre-critical date sales activities, as discussed above, supports the following findings: 1) that Avid was aware of the consequences of selling or offering to sell its reader and tag before filing the '326 patent application, 2) that Avid attempted to file the '326 patent application in advance of the 102(b) date, *i.e.* within one year after its first sales, but failed, and 3) that Avid intentionally withheld evidence of such sales from the PTO in an effort to deceive the PTO and secure allowance of the '326 patent. Additionally, Avid

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[8] Bartz's involvement in the prosecution of the '326 patent is unclear. The above passages are cited as evidence that Avid understood its duty of candor on the eve of filing the '326 patent, as well as demonstrating that Avid knew its sales activity could jeopardize its U.S. patent rights.

has put forth no persuasive reason for not disclosing the sales to the PTO. The court therefore finds, by clear and convincing evidence, that Avid acted with deceptive intent during the prosecution of the '326 patent.

Avid argues that Dr. Stoddard did not owe a duty of candor to the PTO because he was not substantively involved in the prosecution of the '326 patent. The court rejects this argument. Dr. Stoddard co-founded Avid, a closely held company, and has served as its president since 1985. *See* Brief of Defendants, Exhibit F. From the company's inception, Stoddard has been involved in all aspects of the company's operation, from marketing and sales, to research and development. For example, Stoddard specifically hired Beigel and Polish to reduce his conceptualized reader system, embodied in the '326 patent, to practice. *See* Brief of Defendants, Exhibit I at 130-132 (trial transcript; examination of Stoddard). Additionally, as explained above, Stoddard was involved in the prosecution of the '326 patent application. *See e.g.*, DTX 27 (discussed above); DTX 251 (discussed above). Stoddard's active involvement in all aspects of Avid supports the court's finding that he was substantively involved in the prosecution of the '326 patent.

Avid finally argues that the testimony of Doug Hull and Richard Fry is unreliable, and therefore should not be relied upon by the court. Hull, for instance, testified that Stoddard had instructed him to destroy documents relating to pre-critical date sales of the Standard Reader and tags. This issue is moot because the court has made its findings without crediting this evidence.

5. Conclusion

In view of the above discussion, the court finds the following: 1) that Avid's Standard Reader and e5500B tag were on sale prior to the critical date of the '326 patent, 2) that Avid's Standard Reader and e5500B tag were highly material to patentability, and 3) that Avid intentionally withheld information from the PTO in an effort to deceive the PTO and obtain allowance of the '326 patent. Having found that the threshold levels of materiality and intent are satisfied, the court has balanced the high level of materiality with the lower level of deceptive intent, and finds that Avid committed inequitable conduct. The court therefore concludes that the '326 patent is unenforceable.

SIGNED this 28th day of September, 2007.

/s/
T. JOHN WARD
UNITED STATES DISTRICT JUDGE

APPENDIX D

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
MARSHALL DIVISION

CIVIL ACTION NO. 2:04-cv-183 (TJW)

AVID IDENTIFICATION SYSTEMS, INC.

Plaintiff,

v.

PHILIPS SEMICONDUCTORS INC. ET AL.,

Defendants.

MEMORANDUM OPINION AND ORDER

Before the Court is Avid Identification Systems, Inc.'s ("Avid") Unopposed Motion For Reconsideration of the Court's Order of Inequitable Conduct (Docket Entry #457) and related papers. In its motion, plaintiff Avid moves the Court under Rule 60(b) to reconsider the Court's inequitable conduct finding related to Avid's U.S. Patent No. 5,235,326 ("the '326 patent"). (Docket Entry #427). Pursuant to a settlement agreement executed between the parties in this case, this motion is unopposed by defendants Datamars SA and The Crystal Import Corporation (collectively,"the Datamars" or "defendants"). The Court has carefully considered arguments made by Avid and the applicable law on the issues presented. The Court hereby DENIES Avid's motion. Also before the Court is Allflex USA, Inc.'s motion to appear as Amicus or Intervenor to oppose Avid's unopposed motion for reconsideration (Docket Entry #462).

Having ruled on Avid's motion, the Court DENIES Allflex's motion as moot.

I. Background

The parties to this case selected a jury on May 8, 2006. The trial commenced on May 16, 2006 and the jury reached its verdict on May 31, 2006. The jury found that defendants had willfully infringed Avid's asserted patents, including the '326 patent, and had engaged in unfair competition in violation of the Lanham Act. The jury awarded Avid $6 million in damages for Datamars' unfair competition and $26,891 for Datamars' patent infringement. (Dkt. Entry No. 372). In accordance with the jury's verdict, the court rendered final judgment in this case March 25, 2008. (Docket Entry #429).

On June 20, 2006, defendants filed a motion (Docket Entry #377) to render '326 patent, which is assigned to Avid, unenforceable for inequitable conduct. The Court entered an order granting defendants' motion on September 28, 2007. (Docket Entry #427). Following a recent settlement agreement between the parties, Avid moves the Court to vacate this order. Subsequent to filing this motion, Avid filed a Notice of Appeal on January 23, 2009, informing the Court that it had appealed the entry of Final Judgment as well as this Court's inequitable conduct finding to the United States Court of Appeals for the Federal Circuit.

II. Discussion

As a preliminary matter, the Court must determine if it continues to have jurisdiction over Avid's motion. It is well-established that once an appeal is taken, the district court is divested of jurisdiction "except to take action in aid of the appeal until the

case is remanded to it by the appellate court, or to correct clerical errors under Rule 60(a)." *See In re Fraser*, 98 F.Supp.2d 788, 792 (E.D. Tex. 2000) (citing *Travelers Ins. Co. v. Liljeberg Enters.*, 38 F.3d 1404, 1407 n. 3 (5th Cir. 1994)). The Fifth Circuit has recognized, however, that the district court is empowered "to consider on the merits and deny a Rule 60(b) motion filed after a notice of appeal, because the district court's action is in furtherance of the appeal." *Id.* (citing *Winchester v. U.S. Attorney for S. Dist. of Tex.*, 68 F.3d 947, 949 (5th Cir. 1995)). If a district court is inclined to grant the 60(b) motion, then it is necessary to obtain the leave of appellate court. *Id.* "Without obtaining leave, the district court is without jurisdiction, and cannot grant the motion." *Winchester*, 68 F.3d at 949. The Court has considered Avid's motion and is not inclined to grant it for reasons discussed below. Therefore, the Court need not seek leave in ruling on this motion.

In spite of the fact that Avid has entered into a settlement agreement with the defendants, Avid's motion is presented as motion to reconsider rather than a motion to vacate based on mootness arising from settlement between the parties. Absent "exceptional circumstances," a vacatur of this Court earlier ruling would not be justified based simply on the parties' settlement. *U.S. Bancorp Mortgage v. Bonner Mall P'ship*, 513 U.S. 18, 29 (1994); *see also Aqua Marine Supply v. AIM Machining, Inc.*, 247 F.3d 1216, 1221 (Fed. Cir. 2001)("When a case is moot, the Supreme Court in *Bancorp* explained that '[t]he principal condition to which we have looked [in determining whether vacatur is appropriate] is whether the party seeking relief from the judgment below

caused the mootness by voluntary action.'" (quoting *Bancorp*, 513 U.S. at 24)).[1]

Avid argues that because its settlement agreement with the defendants includes provisions on Datamars' obligations that depend on the outcome of this motion, the Datamars have a continuing dispute regarding the validity of the '326 patent. Therefore, it argues there is a continuing case or controversy between the parties related to the '326 patent.[2] The Court is not persuaded. The Court fails to see how defendants could "have a continuing dispute regarding the validity of the '326 patent" when they agree not to oppose the motion on the enforceability of that very patent. The Court finds that there is no longer any Article III case or controversy on the issue of unenforceability of the '326 patent, thereby rendering it moot. *Aqua Marine Supply v. AIM Machining, Inc.*, 247 F.3d 1216, 1220 (Fed. Cir. 2001) ("Under Article

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[1] The Supreme Court's holding in *Bancorp* applies to a district court's vacatur of its own judgment. *See Valero Terrestrial Corp. v. Paige*, 211 F.3d 112, 117 (4th Cir. 2000) ("In the circumstance of vacatur due to mootness, however, we are satisfied that the standards under 28 U.S.C. § 2106 and Rule 60(b) are essentially the same."); *Ericsson, Inc. v. InterDigital Communications Corp.*, No. 3:93-CV-1809-M, 2004 WL 1636924, at *10 (N.D. Tex. June 03, 2004) (*reversed on other grounds*) (stating that "district court judgments, like appellate judgments, are presumptively correct and valuable to the legal community"); *In re Fraser*, 98 F. Supp. 2d at 791 (holding that the rationale announced in *Bancorp* applies district court's vacatur as well).

[2] The Court notes that, in its motion to reconsider, Avid failed to bring any issues related mootness or settlement driven vacatur to the Court's attention. These arguments were made in response to Allflex's subsequent motion to appear as Amicus or Intervenor to oppose Avid's unopposed motion for reconsideration. *See* Avid's Response, D.E. #465 at 13-15.

III, we may only adjudicate 'concrete, living contests between adversaries.'"). Here, as a result of the agreement, Avid and the defendants are no longer adversaries. *Id.* Avid attempts to differentiate the holding in *Aqua Marine* by arguing that the settlement agreement between the parties here specifically enumerates defendants' continuing monetary interest in the validity of the '326 patent. However, in spite of Avid's assertions and the clause in the settlement agreement that Avid points to, the Court finds that Avid has attempted to employ the exact same strategy that the Federal Circuit rejected in *Aqua Marine*.[3] *Id.* ("Indeed, if we held otherwise, evasion of the Supreme Court's limitations on vacatur, discussed below, could be easily accomplished by simply settling the infringement question and allowing the patentee to continue to litigate validity, unencumbered by an opposing party."). Considered as a motion to vacate based on mootness, the Court fails to find any "exceptional circumstances" under the facts presented herein that would justify vacatur of the Court's earlier decision.[4] Therefore, Avid's unop-

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[3] As evidence of Datamars' interest in the issue, Avid points to the clause in the agreement that requires Datamars to pay an additional amount of $26,891 if this motion is granted. *See* Agreement, ¶8. However, same paragraph provides mechanisms to ensure that Avid is allowed to "continue to litigate validity, unencumbered by an opposing party." Specifically, Datamars covenant not to oppose this motion or to contest appellate jurisdiction or standing upon appeal of this Court's decision. *Id.*

[4] The Court is not inclined to grant Avid's motion on its merits either. The Court notes that for the most part, these are the same arguments that Avid extensively briefed in its responses to defendants' motion, and the Court rejected in its order. *See* Avid's Response and Sur-Reply (Dkt. No. 388, 399). The Court

posed motion for reconsideration of the court's order on inequitable conduct is DENIED.

SIGNED this 11th day of February, 2009.

/s/
T. JOHN WARD
UNITED STATES DISTRICT JUDGE

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also notes that Avid now focuses its arguments on Dr. Stoddard's inability to judge the materiality of the prior art and his involvement in the prosecution of the patent as compared to its earlier arguments, based on Dr. Stoddard's incredible testimony, that there was no sales activity prior to the critical date. However, the Court is not persuaded to change its earlier decision.

APPENDIX E – RELEVANT STATUTORY AND REGULATORY PROVISIONS

35 U.S.C. § 282. *Presumption of validity; defenses.*

A patent shall be presumed valid. Each claim of a patent (whether in independent, dependent, or multiple dependent form) shall be presumed valid independently of the validity of other claims; dependent or multiple dependent claims shall be presumed valid even though dependent upon an invalid claim. Notwithstanding the preceding sentence, if a claim to a composition of matter is held invalid and that claim was the basis of a determination of nonobviousness under section 103(b)(1), the process shall no longer be considered nonobvious solely on the basis of section 103(b)(1). The burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity.

The following shall be defenses in any action involving the validity or infringement of a patent and shall be pleaded:

(1) Noninfringement, absence of liability for infringement, or unenforceability,

(2) Invalidity of the patent or any claim in suit on any ground specified in part II of this title as a condition for patentability,

(3) Invalidity of the patent or any claim in suit for failure to comply with any requirement of sections 112 or 251 of this title,

(4) Any other fact or act made a defense by this title.

In actions involving the validity or infringement of a patent the party asserting invalidity or noninfringement shall give notice in the pleadings or oth-

erwise in writing to the adverse party at least thirty days before the trial, of the country, number, date, and name of the patentee of any patent, the title, date, and page numbers of any publication to be relied upon as anticipation of the patent in suit or, except in actions in the United States Court of Federal Claims, as showing the state of the art, and the name and address of any person who may be relied upon as the prior inventor or as having prior knowledge of or as having previously used or offered for sale the invention of the patent in suit. In the absence of such notice proof of the said matters may not be made at the trial except on such terms as the court requires.

Invalidity of the extension of a patent term or any portion thereof under section 154(b) or 156 of this title because of the material failure-

(1) by the applicant for the extension, or

(2) by the Director, to comply with the requirements of such section shall be a defense in any action involving the infringement of a patent during the period of the extension of its term and shall be pleaded. A due diligence determination under section 156(d)(2) is not subject to review in such an action.

37 C.F.R. § 1.56. *Duty to disclose information material to patentability.*

(a) A patent by its very nature is affected with a public interest. The public interest is best served, and the most effective patent examination occurs when, at the time an application is being examined, the Office is aware of and evaluates the teachings of all information material to patentability. Each individual associated with the filing and prosecution of a patent application has a duty of candor and good faith in dealing with the Office, which includes a duty to disclose to the Office all information known to that individual to be material to patentability as defined in this section. The duty to disclose information exists with respect to each pending claim until the claim is cancelled or withdrawn from consideration, or the application becomes abandoned. Information material to the patentability of a claim that is cancelled or withdrawn from consideration need not be submitted if the information is not material to the patentability of any claim remaining under consideration in the application. There is no duty to submit information which is not material to the patentability of any existing claim. The duty to disclose all information known to be material to patentability is deemed to be satisfied if all information known to be material to patentability of any claim issued in a patent was cited by the Office or submitted to the Office in the manner prescribed by §§ 1.97(b)-(d) and 1.98. However, no patent will be granted on an application in connection with which fraud on the Of-

fice was practiced or attempted or the duty of disclosure was violated through bad faith or intentional misconduct. The Office encourages applicants to carefully examine:

(1) Prior art cited in search reports of a foreign patent office in a counterpart application, and

(2) The closest information over which individuals associated with the filing or prosecution of a patent application believe any pending claim patentably defines, to make sure that any material information contained therein is disclosed to the Office.

(b) Under this section, information is material to patentability when it is not cumulative to information already of record or being made of record in the application, and

(1) It establishes, by itself or in combination with other information, a prima facie case of unpatentability of a claim; or

(2) It refutes, or is inconsistent with, a position the applicant takes in:

(i) Opposing an argument of unpatentability relied on by the Office, or

(ii) Asserting an argument of patentability.

A prima facie case of unpatentability is established when the information compels a conclusion that a claim is unpatentable under the preponderance of

evidence, burden-of-proof standard, giving each term in the claim its broadest reasonable construction consistent with the specification, and before any consideration is given to evidence which may be submitted in an attempt to establish a contrary conclusion of patentability.

(c) Individuals associated with the filing or prosecution of a patent application within the meaning of this section are:

(1) Each inventor named in the application;

(2) Each attorney or agent who prepares or prosecutes the application; and

(3) Every other person who is substantively involved in the preparation or prosecution of the application and who is associated with the inventor, with the assignee or with anyone to whom there is an obligation to assign the application.

(d) Individuals other than the attorney, agent or inventor may comply with this section by disclosing information to the attorney, agent, or inventor.

(e) In any continuation-in-part application, the duty under this section includes the duty to disclose to the Office all information known to the person to be material to patentability, as defined in paragraph (b) of this section, which became available between the filing date of the prior application and the national or PCT international filing date of the continuation-in-part application.

Supreme Court, U.S.
FILED
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OFFICE OF THE

No. 10-509

In the Supreme Court of the United States

AVID IDENTIFICATION SYSTEMS, INC.,
Petitioner,

v.

THE CRYSTAL IMPORT CORPORATION, DATAMARS SA, AND DATAMARS, INC.,
Respondents.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

REDACTED BRIEF OF ALLFLEX USA, INC. AS *AMICUS CURIAE* IN SUPPORT OF RESPONDENTS (WHO ARE NOT PARTICIPATING)

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QUESTIONS PRESENTED

The Petition will be unanswered by the named Respondents because, after the district court's judgment of patent unenforceability, the parties voluntarily settled their controversy in a manner that left Respondents with no incentive or reason to continue to litigate the enforceability of the '326 patent (the only issue raised by the Petition). Therefore, in lieu of the absent Respondents, Allflex USA, Inc. as *amicus curiae* submits that the questions presented are:

1. Whether the Federal Circuit correctly affirmed the district court's holding that Petitioner's patent is unenforceable for inequitable conduct where no "clear error" was shown in the findings that Petitioner's own undisclosed § 102(b) prior art was "highly material," the "closest prior art," and "non-cumulative," where the finding that Petitioner intended to mislead the PTO was not challenged on appeal, and where Petitioner's excuse that its founder and president had not been "substantively involved" in prosecuting the patent was expressly rejected as a matter of fact and credibility?

2. Whether the Petition should be dismissed or denied for lack of an Article III case or controversy where a voluntary settlement proposed by Petitioner eliminated Respondents as true adversaries and clearly left them with no actual or concrete interest in the outcome, despite a reserved monetary amount that was nominal in light of Petitioner's settlement concessions and Respondents' future appellate litigation costs?

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STATEMENT OF INTEREST OF AMICUS CURIAE

Allflex USA, Inc. ("Allflex") submits this *amicus curiae* brief in support of the absent Respondents, who did not participate before the Federal Circuit and who will not participate in this Court.[1] Respondents have not participated in any post-judgment proceedings in this case after reaching a voluntary settlement with Petitioner Avid Identification Systems, Inc. ("Petitioner" or "Avid"). Such settlement was proposed and accepted by Petitioner in hopes of obtaining an unopposed appeal of the district court's inequitable conduct judgment rendering Avid's '326 patent unenforceable.

Allflex is well-suited to serve as *amicus curiae* because Allflex is a party in a concurrently-pending case involving the same three Avid patents that were asserted against Respondents in this case. See *Allflex USA, Inc. v. Avid Identification Systems, Inc.*, No. EDCV 06-1109 SGL(OPx) (C.D. Cal.). Based on

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[1] Allflex provided counsel of record for Petitioner with notice of its intent to file this brief more than ten days prior to the due date, as required by S. Ct. R. 37.2(a). Avid consented to the filing of this brief. Allflex also provided notice to counsel who appeared for Respondents in the district court and the Federal Circuit (the latter appearance made solely to state that Respondents would not participate on appeal). Respondents' counsel confirmed that Respondents will not be participating before this Court, but consented to the filing of this brief. In accordance with S. Ct. R. 37.6, Allflex further states that this brief was not authored, in whole or in part, by counsel to a party, and that no monetary contribution to the preparation or submission of this brief was made by any person or entity other than Allflex or its counsel.

the unenforceability judgment in this case, the '326 patent has been dismissed from the California case due to collateral estoppel.

Allflex is also well-suited to serve as *amicus curiae* in this Court because Allflex has fulfilled that role through all post-judgment proceedings in this case. After Avid settled with Respondents, Allflex moved to appear as *amicus curiae* in the district court to oppose Petitioner's reconsideration request, although Allflex's motion was dismissed as moot once the district court concluded that there was no longer a live controversy between Avid and Respondents. App. 50-53a. On appeal, Allflex was granted leave to participate as *amicus curiae* to assert both the lack of a case or controversy and to defend the unenforceability judgment.

Absent Allflex's participation, this Court will be informed only of Petitioner's rejected version of the underlying facts. Allflex will explain why the facts and law fully support the inequitable conduct judgment being challenged by Petitioner. Allflex will also provide the Court with the "rest of the story" on the jurisdictional defect which provides an independent basis for denying review.

Because Respondents will not be participating, Allflex's *amicus curiae* brief includes certain sections ordinarily found within an opposition, including alternative Questions Presented and a Statement of the Case. Under these circumstances, it is believed that such additions will be acceptable and of significant benefit to the Court.

CONSTITUTIONAL, STATUTORY, AND REGULATORY PROVISIONS INVOLVED

The "case or controversy" clause of the U.S. Constitution, Article III, Section 2, clause 1, prohibits federal courts from hearing cases that do not pose an actual controversy. See *Muskrat v. United States*, 219 U.S. 346 (1911).

35 U.S.C. § 102(b) provides: "A person shall be entitled to a patent unless ... the invention was ... on sale in this country, more than one year prior to the date of the application for patent in the United States." Products that were "on sale" more than one year before an application are known as "§ 102(b) prior art." See, e.g., *Dippin' Dots, Inc. v. Mosey*, 476 F.3d 1337, 1344 (Fed. Cir. 2007). Even if § 102(b) prior art is not invalidating as an anticipation, such references can be utilized in an obviousness analysis under 35 U.S.C. § 103(a). See *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398 (2007).

Inequitable conduct is a judicially-created, non-statutory doctrine which provides an equitable defense to a charge of patent infringement. "The concept of inequitable conduct in patent procurement derives from the equitable doctrine of unclean hands: that a person who obtains a patent by intentionally misleading the PTO ["Patent and Trademark Office"] can not enforce the patent." *Demaco Corp. v. F. Von Langsdorff Licensing Ltd.*, 851 F.2d 1387, 1394 (Fed. Cir. 1988); see *Precision Instrument Mfg. v. Automotive Maintenance Machinery Co.*, 324 U.S. 806, 814-86 (1945); *Keystone Driller Co. v. General Excavator Co.*, 290 U.S. 240, 244-47 (1933).

STATEMENT OF THE CASE

The Federal Circuit's inequitable conduct decision cannot be reviewed in isolation from the record and the district court's opinions. App. 38-48a; App. 49-54a. The relevant facts are those found by the district court and affirmed by the Federal Circuit as supported by the record. Yet, Avid's petition presents its rejected and discredited characterization of Dr. Stoddard's behavior and role as if the trial and appeal never occurred, and as if this Court could, even if so inclined, make contrary findings in the first instance.

Notably, the district court resolved all credibility disputes against Dr. Stoddard, who was Avid's sole "exculpatory" witness. It was only after the district court expressly rejected his denials of any pre-critical date sales as incredible that Avid began arguing that Dr. Stoddard was a non-lawyer and non-inventor who could not appreciate "materiality" relative to an invention he conceived, and who was not "substantively involved" with an application critical to the closely-held corporation of which he was founder and president. Because the district court found exactly the opposite, the Petition's entire premise is fatally flawed.

A. Avid's Pre-Critical Date Offers

The '326 patent covers radio frequency identification ("RFID") tags and readers, two components of an electronic identification system for identifying pets and other animals. App. 39a. A unique tag can be implanted in an animal, and an

electronic reader can identify the animal by communication with and recognition of the tag. *Id.* A key object of the invention as eventually claimed was providing a single reader that could read tags of different designs and manufacturers. *Id.*

Dr. Stoddard, a veterinarian, allegedly conceived of a better system of identifying and processing animals, and hired engineers Polish, Malm, and Beigel to develop his idea. App. 3-4a. They devised an encrypted chip that could be read by a reader programmed with Avid's decryption code, and developed a "multi-mode" reader for reading Avid's chips as well as those of other manufacturers. App. 4a. The three engineers (but not Stoddard) were named as inventors on the application (which was assigned to Avid), while Malm served as the prosecuting attorney. App. 4a.

Because the application was filed on August 15, 1991, the §102(b) "critical date" for the '326 patent was one year earlier, August 15, 1990. App. 39a & n.1. As proven at trial, Avid demonstrated and offered its Standard Reader and tag incorporating its e5500B integrated circuit at a trade show before the "critical date," making those devices "§ 102(b) prior art" to the '326 patent. App. 42a. Avid later argued that the demonstrated devices did not meet every limitation of the '326 patent claims. App. 9a. The important point is that because the PTO was never informed of those pre-critical date offers, those devices were never evaluated or utilized as prior art during prosecution.

B. The District Court Proceedings

On May 4, 2004, Avid filed this case against, *inter alia*, Datamars, Inc., Datamars SA, and its subsidiary The Crystal Import Corporation ("Respondents" or "Datamars"). C.A. A839. At the May 2006 trial, Avid asserted Lanham Act claims and infringement of three related Avid patents (the '409 patent, the '017 patent, and the '326 patent). App. 4-5a. The jury found Datamars liable for unfair competition and false advertising, and awarded $6 million in damages. App. 5a. The jury also found all three patents willfully infringed, found the asserted claims of the '326 patent were not invalid, and awarded $26,981 as patent damages. *Id.*

The parties agreed to forego a bench trial on inequitable conduct, thus enabling the district court to decide that issue based on the trial record and supplemental briefing. App. 40a. On September 28, 2007, the court held the '326 patent unenforceable for inequitable conduct. App. 38-48a. That ruling is the only one currently at issue.

The district court rejected "as simply not credible" Stoddard's testimony that Avid's Standard Reader and tag had not been "on sale." App. 42a. From unambiguous contemporaneous documents, the court found the Standard Reader and the e5500B integrated circuit were § 102(b) prior art. App. 42-44a. Deeming Avid's non-materiality argument to be "implausible" (App. 45a), the court further found the "[undisclosed on-sale] activities were the closest prior art to the '326 patent's disclosure" and that "such art

was not cumulative to other art that was before the Examiner during prosecution." App. 45a & n.7.

Accordingly, the district court found "by clear and convincing evidence that Avid's Standard Reader and tag were highly material to the patentability of the '326 patent's claims." App. 45a. The court also found that "Beigel and Stoddard were generally aware that prior sales activity would affect their patent rights, and that sales activities had placed them in a time crunch with respect to filing their patent applications."[2] App. 46a. Together with Avid's pre-critical date activities, the court found that Avid's knowledge of the adverse consequences, its failed efforts to file within one year of those activities, and its lack of any persuasive reason for not disclosing the sales to the PTO supported finding "by clear and convincing evidence, that Avid acted with deceptive intent during the prosecution of the '326 patent." App. 46-47a.

The district court correspondingly found it unnecessary to rely on other evidence indicating that

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[2] As it did in the Federal Circuit, Avid asserts that Dr. Stoddard was the only person implicated in Avid's inequitable conduct. While the Federal Circuit affirmed even upon accepting that premise (see App. 12a n.1), the district court's opinion confirms that inventor Beigel also knew about the fact, materiality, and legal consequences of Avid's pre-critical date "on sale" activities. Moreover, other evidence confirms that Beigel both knew of and concealed Avid's extensive pre-August 15, 1990 § 102(b) activities. See C.A. A8309, A8372, A8390-91, A8528, A8993-94; C.A. Supp. A1-3. The judgment would be independently supported by Beigel's conduct, which is an additional reason for denying the petition.

Stoddard had instructed others to destroy documents concerning Avid's pre-critical date sales. *Id.* Balancing its findings of high materiality and culpable intent, the district court held the '326 patent was unenforceable. App. 48a. On March 25, 2008, the court resolved the remaining post-trial motions and entered final judgment. C.A. A1-1, A13-21. Respondents timely filed various post-judgment motions for JMOL and a new trial. C.A. A869. However, on November 3, 2008, while those motions were pending, Avid and Respondents entered a global settlement agreement and release (hereinafter "Agreement").

C. The Parties' Settlement Agreement

Under the Agreement, the parties agreed to dismiss all claims and counterclaims, "except as they related to the '326 patent." C.A. A16619. Defining "Datamars" to include Respondents, the Agreement specified that Datamars will

C.A. A16617.

REDACTED

C.A. A16619.

On the '326 patent, Avid reserved the right to ask the district court to reconsider the inequitable conduct ruling and vacate its unenforceability judgment. C.A. A16619. The Agreement expressly provided that "Datamars agrees not to oppose such a motion." *Id.* If reconsideration was denied, Avid also

reserved the right to appeal the unenforceability "finding." C.A. A16619-20. Respondents could oppose the appeal, but the Agreement provided that "Datamars will not contest appellate jurisdiction or standing, and Datamars will not allege that the appeal is moot and/or lacks a case or controversy." C.A. A16620.

Rather than the $6+ million awarded by the jury, **REDACTED** C.A. A16620. If Avid succeeded in restoring the enforceability of the '326 patent, Respondents had to pay Avid another $26,891. *Id.*

REDACTED

Id. Hence, Respondents saved over $3 million dollars under the Agreement,

REDACTED

On November 24, 2008, the district court entered an order dismissing all claims and counterclaims with prejudice, except those on the '326 patent. C.A. App. 813. That order also stated that all pending motions were withdrawn. *Id.* On December 22, 2008, Avid filed an unopposed motion under Fed. R. Civ. P. 60(b) asking the district court to reconsider its inequitable conduct ruling. The next day, Allflex moved to appear as an *amicus curiae* to oppose Avid's motion and expose Avid's settlement scheme to pursue reconsideration and appeal without opposition.

On February 11, 2009, the district court rejected Avid's assertion that the money obligations dependent upon the reconsideration outcome were sufficient to preserve a case or controversy between the parties. App. 49-54a. Instead, the court "fail[ed] to see how defendants could have a continuing dispute when they agree not to oppose the motion on enforceability." App. 52a. The court thus held that there was no longer an Article III case or controversy concerning the enforceability of the '326 patent, thereby rendering the reconsideration motion moot. App. 52-53a.

Importantly, the district court also found no "exceptional circumstances" under *U.S. Bancorp Mortgage v. Bonner Mall P'ship*, 513 U.S. 18, 29 (1994), to justify vacatur of the inequitable conduct ruling. App. 53a. Finally, the court stated that it would not have been inclined to grant Avid's motion anyway. App. 53a n.5. Viewing Avid's arguments as already advanced and rejected, the court saw no reason to change its prior decision. *Id.*

D. The Federal Circuit Proceedings

After Avid appealed, Respondents' counsel appeared only to inform the Federal Circuit that "in view of a settlement agreement between Datamars and [Avid], Datamars does not expect to file a brief in this appeal." C.A. Dkt. 15. Respondents' Docketing Statement separately stated that "[t]he parties have already settled, as noted in the stipulation that is docket entry no. 455 in the case below." C.A. Dkt. 14, at 3. Thereafter, Respondents did not participate

in any manner while Allflex was allowed to appear as an *amicus curiae* to defend the judgment.

On April 27, 2010, the Federal Circuit issued its opinion. App. 1-19a. On jurisdiction, the Federal Circuit held that a live controversy still existed because Datamars was free under the Agreement to oppose the appeal, and held that their decision not to submit a brief did not deprive the Court of jurisdiction. App. 7a. In the Federal Circuit's view, the $26,981 "riding on the outcome of the appeal" was not "a token or arbitrary sum introduced for the purpose of manufacturing a controversy," but represented the entirety of the jury award for patent infringement, which Datamars would have been legally required to pay if the '326 patent were not held unenforceable. App. 8a.

On the merits, the Federal Circuit first explained that a district court's ultimate determination of inequitable conduct is reviewed for abuse of discretion, while the underlying findings on "materiality" and "intent" are reviewed for "clear error." App. 8a-9a. As to the latter, the Federal Circuit expressly noted that "Avid does not dispute on appeal that Dr. Stoddard withheld the information with specific intent to deceive the PTO for the purposes of obtaining a patent." App. 9a.

On materiality, the Federal Circuit rejected Avid's assertion that the jury's finding that the '326 patent was not invalid as anticipated under § 102(b) meant that the undisclosed trade show offers could not be § 102(b) prior art. App. 9a. As the court explained, Avid was confusing the concepts of

"material" and "invalidating" because prior art that did not meet every claim limitation could still be material. App. 10a (and cases cited). Thus, the Federal Circuit affirmed that the offered product, while not invalidating, "reflected the closest prior art, and thus was highly material." App. 10a.

Rejecting Avid's theory that Dr. Stoddard had no duty of candor to the PTO, the Federal Circuit noted that under 37 C.F.R. § 1.56(c), such duty extends to "every other person who is *substantively involved* in the preparation or prosecution of the application and who is associated with the inventor or assignee." App. 11a (emphasis added). Deeming this case as its first chance to define "substantive involvement," the Federal Circuit held that the district court's "duty of candor" analysis was not clearly erroneous and was "reinforced by our own review of the entire record and relevant case law, which reveals sufficient reason to uphold the district court's judgment." App. 15a.

Among the many findings that were upheld, the Federal Circuit cited that "the '326 patent was directed to the system that fulfilled Dr. Stoddard's personal mission and the purpose for which his company was created" (App. 14a) and that "Dr. Stoddard's lack of credibility ... cast doubt on Dr. Stoddard's assertion that he did not understand the claimed technology and was not involved in the preparation of the '326 patent application." App. 15a. His inclusion on substantive communications regarding a European counterpart application "support[ed] the more general conclusion that he was substantively involved in preparation of the patent

application covering the system he conceived." App. 16a. Thus, the Federal Circuit affirmed that Dr. Stoddard was not exempt from the duty of disclosure under Rule 56, noting that to hold that "a person such as Dr. Stoddard owes no duty of candor would allow intentional deception by the types of people most likely to have knowledge of § 102(b) prior art." App. 17a.

Judge Linn dissented on whether a duty of candor applied to Dr. Stoddard. App. 20a. In his view, the evidence did not support "a finding that Dr. Stoddard was substantively involved in preparing or prosecuting the '326 patent" or that he was "sufficiently apprised of its technical details or legal merits to allow him to assess what information would be considered material to its patentability." App. 29a.

E. Denial Of Rehearing *En Banc*

The Federal Circuit's opinion was issued after the *en banc* Court announced that it would address inequitable conduct issues in *Therasense, Inc. v. Becton, Dickinson, & Co.*, 2010 WL 1655391 (Fed. Cir. April 26, 2010). Avid petitioned for rehearing *en banc* and moved to stay any mandate pending the decision in *Therasense*. App. 31a. Both were denied. App. 30-32a. No judge dissented from the denial of rehearing. *Id.* Only one judge dissented from denial of a stay. App. 33-37a (Newman, J., dissenting). In her view, the jury's verdict that the '326 patent was valid provided sufficient basis for waiting to see whether a future decision in *Therasense* "may" affect this case. App. 36a.

REASONS FOR DENYING THE PETITION

The district court's inequitable conduct determination that was affirmed by the Federal Circuit is unremarkable, straightforward, and case-specific. Upon affirming the district court's findings (including one that Dr. Stoddard acted with an intent to mislead the PTO that Avid did not even dispute on appeal), the Federal Circuit upheld the district court's discretionary holding that the '326 patent was unenforceable due to Avid's culpable failure to disclose its own pre-critical date sales that were "highly material" and the "closest prior art," and which included the features that Avid asserted constituted the patentable novelty of the later-claimed invention.

"Where there are two permissible views of the evidence, the factfinder's choice between them cannot be clearly erroneous." *Anderson v. City of Bessemer City*, 470 U.S. 564, 574 (1985). Moreover, credibility determinations by the trial judge "can virtually never be clear error." *Id.* at 575. Yet, never mentioning that applicable standard of review, Avid ignores the adverse credibility findings and simply reargues its rejected view of the disputed evidence, insisting that Dr. Stoddard was not "substantively involved" in prosecuting the '326 patent. Given that the district court expressly found the opposite, and the Federal Circuit agreed, the entire premise for Avid's petition disappears.

Despite Avid's efforts to recast this case as one implicating fundamental tenets of inequitable conduct doctrine or as a failure to adhere to agency

regulations, it was nothing more than a routine application of established law to the facts as found by the district court. Nevertheless, trying to climb aboard the coattails of the Federal Circuit's pending *en banc* decision in *Therasense*, Avid labors to transform this case into a referendum on inequitable conduct. However, as the Federal Circuit repeatedly confirmed by successively deciding this case, denying rehearing, and refusing a stay *after* it had already taken the *Therasense* case *en banc*, the outcome here is not implicated by the issues pending in *Therasense*.[3]

Simply put, the unenforceability judgment on the '326 patent is clearly correct, and this case does not present a proper vehicle for revisiting or revising existing inequitable conduct doctrine (particularly since the parties have voluntarily settled their controversy in a manner that leaves only Petitioner still litigating). Avid's petition should be denied.

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[3] Avid concedes that its "substantively involved" question is not presented. Petition 31. Both lower courts explained how Avid confuses "anticipation" with "materiality" under current law App. 44-45a; App. 9-10a. While the "materiality" standard is raised in *Therasense*, the jury's unreviewed validity verdict here does not establish that the '326 patent would have issued over Avid's undisclosed § 102(b) prior art. Even if the Federal Circuit in *Therasense* adopts a "but for" standard for materiality (which is highly doubtful), Avid ignores that § 102(b) prior art can be "invalidating" not just for anticipation, but obviousness. See *supra* page 3. Given that Avid's undisclosed "on sale" activities were found to be "highly material" and "non-cumulative" (App. 45a n.7), such § 102(b) prior art necessarily would have directly affected Avid's arguments for patentability. See *Gardco Mfg., Inc. v. Herst Lighting Co.*, 820 F.2d 1209, 1213 (Fed Cir. 1987).

I. There Is No Clear Error In Finding That Dr. Stoddard Was "Substantively Involved" In Prosecuting The '326 Patent

As Avid concedes, PTO Rule 56 imposes a duty to disclose on "[e]very other person who is substantively involved in the preparation or prosecution of the application and who is associated with the inventor, with the assignee or with anyone to whom there is an obligation to assign the application." See Petition 15 (quoting 37 C.F.R. § 1.56(c)(3)). The Manual of Patent Examining Procedure § 2001.01 clarifies that the "substantively involved" limitation on the "duty of disclosure" simply means that the duty "does not extend to typists, clerks, and similar personnel who assist with the application." As the district court found, Dr. Stoddard was no mere typist or clerk. App. 47a.

Avid's continued insistence that its co-founder and president was not "substantively involved" with prosecuting an application on an invention that he conceived and that was central to Avid's business plan cannot establish clear error in the district court's contrary findings:

> From the company's inception, Stoddard has been involved in all aspects of the company's operation, from marketing and sales, to research and development. For example, Stoddard specifically hired Beigel and Polish to reduce his conceptualized reader system, embodied in the '326 patent, to practice. ...Stoddard's active involvement in all aspects of Avid supports the court's finding that he

> was substantively involved in the prosecution of the '326 patent.

App. 47a. Absent any attempt or basis for showing "clear error," the Petition is merely a losing party's complaint about adverse fact findings leading to a judgment affecting only this patent and this petitioner.

As noted, Avid's treatment of Dr. Stoddard changed after the inequitable conduct ruling based on the adverse credibility findings. App. 53a n.4. After using him in an attempt to excuse Avid's non-disclosure of its own, highly material prior sales, Avid switched to arguing that he really was unable to judge the materiality of prior art and had not been "substantively involved" in the prosecution. *Id.* As both lower courts held, Avid's revisionist treatment of Dr. Stoddard's role and understanding with respect to the '326 patent could not undo the findings or change the outcome. Moreover, it provides no basis for obtaining this Court's review.

The Federal Circuit described this case as its first opportunity to define "substantive involvement" relative to triggering the duty of candor. App. 12a. That, too, counsels against this Court's review until the Federal Circuit's carefully-limited guidelines can be applied in other patent cases.

> Our holding does not automatically extend the duty of candor to all individuals who contact one of the inventors or ...extend the duty generally to all individuals on the commercial side of product development. We simply hold

> that the district court may consider a variety of factors, such as an individual's position within the company, role in developing or marketing the patented idea, contact with the inventors or prosecutors, and representations to the PTO in deciding whether that individual is "substantively involved" within the meaning of § 1.56(c)(3).

App. 17a n.3. As the Federal Circuit also held, "to accept Avid's argument that a person such as Dr. Stoddard owes no duty of candor would allow intentional deception by the types of persons most likely to have knowledge of § 102(b) prior art." App. 17a. When § 102(b) prior art arises from an applicant's own activities, the PTO typically has no other source for obtaining such information.

Notwithstanding Avid's hyperbole (Petition 20-30), inequitable conduct doctrine and Rule 56 must be construed and enforced to deter high-ranking assignee executives who, like Dr. Stoddard, may benefit most from fraudulently procured patents. The law cannot allow corporate executives to conceal or suppress or destroy evidence of an assignee's "on sale" activities just because others do the direct communications with the PTO. Otherwise, executives in multi-national corporations could bar their attorneys prosecuting parallel applications in different countries from exchanging relevant prior art. The possibilities for similar schemes to mislead the PTO would be endless.

Here, Stoddard was found to have known the consequences to the '326 patent posed by Avid's pre-

critical date demonstrations of its Standard Reader and e5500B tag. App. 46-47a. The district court also found Avid offered no persuasive reason for not disclosing its pre-critical date activities to the PTO. *Id.* The offered products were found to be "highly material" and "the closest prior art." Yet, other than belatedly quibbling over whether Stoddard had a duty to the PTO, Avid did not even challenge the court's finding that he and Avid acted with a culpable intent to mislead the PTO. App. 9a. Thus, whether deemed "fraud on the PTO" or "inequitable conduct," those findings clearly establish that the '326 patent was properly held unenforceable, leaving no reason for this Court's review.

II. There Is No Remaining Article III Case Or Controversy Between Avid And Respondents

Disagreeing with the district court, the Federal Circuit concluded that a live controversy existed over the enforceability of the '326 patent because the Agreement allowed Datamars to oppose Avid's appeal (albeit without be able to challenge jurisdiction), and that Respondents' failure to submit a brief or otherwise participate did not deprive the Federal Circuit of such jurisdiction. App. 7a. The conclusion that there was jurisdiction was incorrect.

Allflex could not as *amicus curiae* file a cross-petition on behalf of the absent Respondents to challenge the Federal Circuit's jurisdictional ruling. However, a cross-petition is not needed "to defend [a] judgment on any ground properly raised below whether or not that ground was relied upon, rejected,

or even considered by the District Court or the Court of Appeals," *Washington v. Yakima Indian Nation*, 439 U.S. 463, 476 n.20 (1979), provided it would not change the judgment. *Granifinanciera, S.A. v. Nordberg*, 492 U.S. 33, 38-40 (1989).

Here, the jurisdictional issue was raised in and decided by both lower courts. If this Court were to disagree with the Federal Circuit's jurisdiction holding, its opinion would be vacated and Avid's appeal dismissed. That would reinstate the district court's unenforceability judgment because, adhering to this Court's decision in *Bancorp*, the district court specifically declined to vacate its judgment after the parties' settlement (App. 51-52a), a ruling which Avid also did not appeal. See *Shelby v. Superperformance Int'l, Inc.*, 435 F.3d 42, 45 & n.3 (1st Cir. 2006). Thus, a conclusion by this Court that the Federal Circuit lacked jurisdiction over Avid's appeal would not change the judgment.

With or without a cross-appeal, Allflex should be able as *amicus curiae* to alert this Court to a dispositive jurisdictional issue with origins in this Court's precedent. In *Havens Realty Corp. v. Coleman*, 455 U.S. 363, 371 (1982), the petitioner and respondents agreed that if this Court denied certiorari, or affirmed, respondents would receive $400 in damages. Otherwise, they would receive no relief. *Id.* This Court held the case was not moot:

> If respondents have suffered an injury that is compensable in money damages of some undetermined amount, the fact that they have settled on a measure of damages does not

> make their claims moot. Given respondents' continued active pursuit of monetary relief, this case remains "definite and concrete, touching the legal relations of parties having adverse legal interests."

455 U.S. at 371 (quoting *Aetna Life Ins. Co. v. Haworth*, 300 U.S. 227 (1937)). *Havens* was later followed in *Nixon v. Fitzgerald*, 457 U.S. 731, 743-44 (1982), where the parties agreed to liquidated damages of $28,000 if this Court held that petitioner was not entitled to absolute immunity. However, those decisions cannot mean that an Article III case or controversy only requires reserving any form or amount of monetary dispute.

Yet, the Federal Circuit held that the $26,981 that the Agreement left "riding on the outcome of the appeal" was not "a token or arbitrary sum introduced for the purpose of manufacturing a controversy," but represented "the entirety of the jury award for patent infringement, which Datamars would have been legally required to pay to Avid if the '326 patent were not held unenforceable." App. 8a. However, that is incorrect. The jury's patent damages award covered all three patents-in-suit, not just the '326 patent, and the district court's judgment awarded Avid the entire $26,891, despite the '326 patent being unenforceable. Thus, it should have been irrelevant that the figure reserved by the Agreement was what the jury awarded as patent damages, and the resulting jurisdictional defect—eliminating the parties as true adversaries—is no different than if the reserved amount had been arbitrarily set at $10,000, $25,000, or $50,000.

While maintaining a liquidated monetary dispute may be necessary for Article III jurisdiction, it cannot be sufficient by itself where the appellee is no longer a true adversary due to the appellant's voluntary settlement. Unlike in *Havens* or *Nixon*, where respondents continued to litigate to recover the liquidated amount from petitioners, Respondents here were no longer in "active pursuit of monetary relief" after the Agreement. Instead, the opposite was true. Having reduced their liability by over $3 million **REDACTED**

Respondents' actions leave no doubt that they do not care whether Avid's unopposed appellate efforts obligate Respondents to pay the liquidated amount of $26,981 **REDACTED**

On the other hand, Avid's pursuit of such monetary relief is simply a smokescreen to obscure its real purpose of ensuring that they could challenge the unenforceability judgment unencumbered by an opposing party so as to resurrect the '326 patent to assert against others, including Allflex.

If Avid's view of *Havens* (as implicitly accepted by the Federal Circuit) were valid, a settling party could always avoid mootness by assigning a value of $1 to the outcome of any reserved issue on which it still wanted a federal court's decision, regardless of whether such stakes would motivate the other party to continue to litigate in good faith, at arms-length, and as a true adversary. However, Article III must require more than a "sidebet" for a true case or controversy. See *Gator.com v. L.L. Bean, Inc.*, 398 F.3d 1125, 1132 (9th Cir. 2005) (*en banc*) (dismissing appeal as moot despite the parties reserving a $10,000 payment contingent on the outcome).

Where an appeal ceases to be adversarial due to a settlement or contractual arrangement created by an appellant, the case is moot. See *Aqua Marine Supply v. AIM Machining, Inc.*, 247 F.3d 1216, 1220 (Fed. Cir. 2001). Here, despite leaving money at stake and not barring Respondents from opposing the appeal, Avid structured the Agreement to eliminate Respondents' actual or concrete interest in the outcome. Required to withdraw their post-trial motions and unable to challenge jurisdiction, it is little wonder that Respondents did not participate in an appeal where the future litigation costs would dwarf the minor amount left at stake.

If an adversarial relationship becomes irreparably compromised by an appellant's voluntary acts, there is no Article III case or controversy. If Avid wanted to challenge the unenforceability judgment on the '326 patent, it should have let the post-trial motions and appellate proceedings run their natural course. Instead, Avid "stacked the deck" by buying off its opponent to create an unopposed appeal. Thus, the resulting lack of jurisdiction is an independent basis for dismissing or denying Avid's petition.

III. This Court Should Not GVR Or Hold This Petition Pending The Federal Circuit's *En Banc* Decision In *Therasense*

Finally, this Court should reject Avid's attempt to distort this Court's GVR procedure to achieve further delay and more unopposed litigation. Petition 32-34. As the Federal Circuit repeatedly recognized, its future decision in *Therasense* cannot

undo the judgment compelled by the district court's affirmed findings in this case.

First, the Federal Circuit's decision in this case issued *after* the *en banc* order in *Therasense*. If a future decision in *Therasense* provided any reason for a different result in this case, the dissent surely would have said so. Yet, Judge Linn did not, and also did not dissent from the subsequent denial of rehearing *en banc*. App. 30-32a.

Second, Avid quotes Chief Judge Rader's concurrence in *Advanced Magnetic Closures, Inc. v. Jaroslawicz*, 607 F.3d 817, 834-35 (Fed. Cir. 2010), indicating that he "generally" would hold inequitable conduct cases until after *Therasense* was decided. However, Avid omitted his preceding qualification that he would do so only "absent extreme facts such as those found in the [*Advanced Magnetics*] case." *Id.* at 835. Notably, that case was decided while Avid's petition for rehearing *en banc* and motion to stay were pending. Yet, Chief Judge Rader also did not dissent from the denials of Avid's rehearing petition or motion to stay. App. 30-32a.

Although Judge Newman alone dissented from the denial of Avid's motion to stay, she relied on the jury's validity verdict that was never reviewed by any judge. App. 36a. On inequitable conduct, however, Avid has had its full day in court—with Respondents satisfying a "clear and convincing" burden of proof before a district judge—and that decision has now been fully reviewed and affirmed. Given that the other Federal Circuit judges discerned no reason to hold this case for its future *en*

banc Therasense decision, this Court should also decline such invitation.

Finally, there can be no legitimate reason to stay or remand this case to allow Avid to continue to litigate by itself against the absent Respondents. Contrary to Petition 34, no "injustice" has been inflicted on Avid. The injustice would be allowing Avid to reap further undeserved benefits and to perpetuate more uncertainty in the marketplace using a patent that was clearly proven to have been procured through its own culpable inequitable conduct.

CONCLUSION

For the reasons stated, the petition should be denied.

Respectfully submitted.

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In the Supreme Court of the United States

AVID IDENTIFICATION SYSTEMS, INC.,
Petitioner,

v.

THE CRYSTAL IMPORT CORPORATION, DATAMARS SA AND DATAMARS, INC.,
Respondent.

Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

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INTRODUCTION

Allflex's brief is striking for what it does not say. It does not dispute Avid's description of this Court's inequitable conduct precedent. It does not dispute the Federal Circuit's jurisprudence has "significantly diverged" from that precedent. It does not dispute that this Court has never extended a charge of "fraud on the Patent Office" to someone who was not involved with the preparation or submission of any information regarding patentability. It does not dispute that the Federal Circuit's expansion of the doctrine has flooded the Patent Office with marginally relevant information, decreased patent quality, driven up the costs of litigation, and exposed reputable people to unfounded personal attacks.

Instead, Allflex tries to recast the issues here as factual questions. They are not. The appropriate standards governing (1) who may be accused of inequitable conduct and (2) what information is so "material" that failure to disclose it to the Patent Office is considered fraud are pure issues of law. If this Court confirms that Avid has articulated the right legal standard for either issue, there can be no inequitable conduct on the facts found by the district court. Allflex never argues otherwise.

Allflex also claims the federal courts no longer have Article III jurisdiction over this case. This Court's cases hold otherwise. The settlement between Avid and Datamars expressly carved out this issue, and the jury's entire award for patent infringement damages is still at stake on appeal. That preserves Article III jurisdiction. Further, Allflex's continued vigorous opposition to Avid's appeal demonstrates the issues here will receive adversarial presentation if the Court grants *certiorari*.

ARGUMENT

A. The Questions Presented Are Issues of Law, and Their Answers Warrant Reversal.

Avid's petition asks the Court to address pure issues of law, not to make new fact findings "in the first instance" or disturb a "discretionary" determination, as Allflex argues. Opp. at 4, 14. If the Court were to agree with Avid's proposed legal standards, there could be no inequitable conduct under the facts found by the district court. The Court routinely grants *certiorari* to set the legal standard for issues in patent cases and apply that standard to the facts. See, e.g., *Global-Tech Appliances, Inc. v. SEB S.A.*, No. 10-6 (agreeing to address the legal standard for the mental state required to induce patent infringement and to apply it to facts as found after a jury trial); *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398 (2007) (articulating the legal standard for obviousness and applying it to facts on a summary judgment record); *Pfaff v. Wells Elecs., Inc.*, 525 U.S. 55 (1998) (articulating the legal standard for whether an invention is "on sale" and applying it to the district court's factual findings).

Avid is asking the Court to do the same here. Question 1 of the petition asks whether, as a matter of law, a patent may be held unenforceable based on the actions of an individual who was not involved in the preparation or submission of any evidence or argument to the Patent Office to convince it to issue the patent. Pet. at i. Avid has always maintained that Dr. Stoddard, who was the only person found to have committed inequitable conduct, (App. 12a n.1), had no such involvement and no knowledge of the technical or legal merits of the patent application.

The district court never found that Dr. Stoddard was involved in preparing or submitting anything to the Patent Office related to patentability. Indeed, as Judge Linn explained in dissent, the only evidence on this issue—uncontroverted testimony from Dr. Malm, the attorney responsible for the patent application—stated that Dr. Stoddard had no such involvement. (App. 26a-27a; C.A.App. A14100, A14104, A16649-50.)

Allflex focuses on the district court's findings that Dr. Stoddard (1) was generally involved in Avid's marketing, sales, research, and development efforts and (2) hired the inventors. Opp. at 16-17. Allflex also stresses he was "no mere typist or clerk," and casts aspersions on Dr. Stoddard's credibility. Opp. at 16, 18-19. But this is all irrelevant under this Court's precedent and a proper reading of the applicable Patent Office regulation. Nothing shows that Dr. Stoddard was involved in preparing or submitting information to the Patent Office about patentability, as opposed to exercising high-level oversight over a variety of Avid's activities, as any executive or manager would. He never discussed the '326 patent with the inventors or with the one person who did prepare and submit information to the Patent Office—Dr. Malm. (C.A.App. A14100, A14104, A16649-50.) Nothing suggests Dr. Malm's testimony to this effect was untruthful. Indeed, there is no evidence to the contrary, and the district court never found otherwise. Thus, if the Court answers question 1 "no," there can be no finding of inequitable conduct under the facts found by the district court.

Similarly, question 2 asks whether, as a matter of law, a patent may be rendered unenforceable due to failure to disclose prior art that neither invali-

dates the patent nor contradicts the applicant's statements to the Patent Office. Pet. at i. Again, the district court never found Avid's prior products rendered the claims invalid, under either § 102(b) or for obviousness. On the contrary, the jury found they do not. (App. 40a.) Likewise, the district court never found that Avid's prior products contradicted any statement to the Patent Office.

It did find that Avid's prior products were the "closest prior art" and "not cumulative." Opp. at 7, 14, 15 n.3. But neither of these findings show the products would have rendered the claims invalid, contradicted a statement to the Patent Office, or otherwise influenced the Patent Office's decision. Pet. at 14, 18. Indeed, Judge Newman recognized that if a stricter legal standard for materiality were applied in this case—including the one in the Patent Office's own regulation—there could be no inequitable conduct on this factual record. (App. 33a-37a.) The district court's observation that Avid's products were "highly material" is not a factual finding, as Allflex suggests, but an incorrect legal conclusion based on applying the wrong legal standard for materiality. Thus, if the Court answers question 2 "no" as a matter of law, there can be no finding of inequitable conduct under the facts here.

B. The Federal Circuit's Decision Will Further Exacerbate the Recognized Harms from the Inequitable Conduct Doctrine.

Avid's petition describes the harms that have resulted from the Federal Circuit's departure from this Court's precedent. Pet. at 11-14, 20-30. Allflex never argues the Federal Circuit's inequitable conduct jurisprudence is consistent with this Court's precedent or Congress's codification of it in 35 U.S.C.

§ 282. Nor does Allflex dispute that the Federal Circuit's expansion of the doctrine has created these harms. Allflex cites no evidence to suggest they are "hyperbole." So if the Federal Circuit's decision is an "unremarkable, straightforward," and "routine application" of its current precedent, as Allflex urges, Opp. at 14-15, that is all the more reason to grant *certiorari*. This Court needs to bring the doctrine back in line with its own precedent and relieve the Patent Office from the flood of marginally relevant material it must now process.

Allflex claims the Federal Circuit's decision is only a modest expansion of liability because the panel majority said it was not "automatically extend[ing]" the doctrine "to all individuals on the commercial side of product development." Opp. at 17 (quoting App. 17a n.3). That is indeed what the panel majority said. But if Dr. Stoddard can be charged with inequitable conduct despite his lack of participation in the preparation or submission of anything to the Patent Office related to patentability or his lack of knowledge in the relevant art of the invention, there is no logical way to limit the holding in this case from always sweeping in most executives, marketing people, and senior employees in research and development.

Allflex claims that subjecting these individuals to charges of inequitable conduct is good because it will encourage them to bring the company's prior art products to the Patent Office's attention. Opp. at 18. But the Patent Office itself says it already has too much information to review. Pet. at 21-22, 25-26. That is why its regulations limit the duty of disclosure to those who are "substantively involved in the preparation or prosecution of the application," rather

than extending it to everyone at the company "who is associated with the inventor." 37 C.F.R. § 1.56(c).

More fundamentally, this Court created the doctrine not "as a universe principle to encourage a patent owner to disclose (excessive amounts of) prior art, but only as a remedy for truly abusive behavior." Hon. Randall R. Rader, *Always at the Margin: Inequitable Conduct in Flux*, 59 AM. L. REV. 771, 781 (2010). It should return the doctrine to that narrow class of cases.

This case is not one of them. Contrary to Allflex's suggestion, Opp. at 7-8, 18, neither the jury nor the district court ever found Dr. Stoddard destroyed evidence of Avid's prior sales. (App. 47a.) The jury must have believed Dr. Stoddard, for it found the prior art products are not invalidating. And again, Dr. Malm's uncontroverted testimony establishes that Dr. Stoddard did not participate in the application process. (C.A.App. A14100, A14104, A16649-50.) This was unsurprising because, as Dr. Malm also testified without contradiction, Dr. Stoddard was a veterinarian who had no involvement in the conception or development of the complex RFID technology of the patented invention. (*Id.* at A16650.) Dr. Stoddard is thus not the nefarious executive that Allflex paints him to be.

The fact this was the Federal Circuit's "first opportunity" to expand inequitable conduct to sweep in so many new categories of people, Opp. at 17, just demonstrates that defendants' allegations were previously focused on people with actual involvement in preparing or submitted information to the Patent Office regarding patentability. Now, the Federal Circuit has exposed individuals with no such involvement to charges of misconduct. This Court should

step in immediately, while it can still limit the damage.

C. There is Still an Article III Controversy in This Case.

This Court has held that a settlement agreement that resolves some but not all issues between parties does not render the case moot with respect to the remaining issues. *Nixon v. Fitzgerald*, 457 U.S. 731, 743-44 (1982); *Havens Realty Corp. v. Coleman*, 455 U.S. 363, 370-71 (1982). This is a sensible approach because it encourages parties to settle the issues they can, simplifying the remaining litigation. The parties in *Havens* and *Nixon* had settled their disputes regarding the amount of damages, setting liquidated amounts for the plaintiff to recover if it succeeded, but continued to dispute whether there was liability. *Id.* The Court found a continuing Article III controversy in both instances because liability remained disputed and money would change hands based on whether the Court found liability on the merits. *Id.*

The same is true here. The parties' settlement resolved "all claims and counterclaims, except as they relate to the '326 patent," which is the patent at issue on appeal. (C.A.App. A16619-20.) It set a liquidated damages award of $26,981 for Avid if it obtained reversal of unenforceability finding. (*Id.*) That is the jury's entire award for patent infringement, far more than remained at stake in *Havens* ($400), and almost as much as in *Nixon* ($28,000). The agreement left Datamars free to oppose Avid's appeal on the merits at the Federal Circuit and in this Court. (*Id.*) Article III jurisdiction has always remained at issue because the courts have an inde-

pendent obligation to assess it. Thus, an Article III controversy remains under *Havens* and *Nixon*.

Neither of Allflex's cases holds otherwise. Instead, they involve situations where the parties' settlement resolved every merits issue. For example, *Aqua Marine Supply v. AIM Machining, Inc.*, 247 F.3d 1216 (Fed. Cir. 2001), found the patentee's appeal of a summary judgment of invalidity was moot after the parties entered into a settlement agreement to "settle all claims between them" and to dismiss "with prejudice . . . all claims by and between all parties." *Id.* at 1218-20. The parties had not carved validity out of the settlement agreement, and a reversal on that issue would not have adversely impacted the defendant. *Id.* Here, by contrast, the parties' settlement agreement explicitly excludes the '326 patent. (C.A.App. A16619-20.) And reversal would adversely impact Datamars because it would lose a significant sum.

Likewise, *Gator.com Corp. v. L.L. Bean, Inc.*, 398 F.3d 1125 (9th Cir. 2005) (*en banc*) was a trademark case where the parties entered into a settlement before appeal. The trademark holder had released the infringer from "all liability," and the infringer agreed to permanently stop the alleged wrongful conduct. *Id.* at 1130-31. The only issue on appeal was whether the district court had personal jurisdiction over the case in the first place. The Ninth Circuit found the case moot because every merits issue had been resolved. *Id.* It did not matter that the settlement agreement provided that the plaintiff would recover $10,000 if the Ninth Circuit reversed on personal jurisdiction. The parties could not have come into court initially just to resolve a $10,000 bet about whether the court would find personal jurisdiction

over the defendant, so they could not continue to litigate solely for that purpose. *Id.* at 1131-32. Again, that is not the case here: the parties still dispute a merits issue that triggered this lawsuit—whether Datamars is liable for infringement of the '326 patent.

Allflex claims there is no Article III jurisdiction because the liquidated damages here are too small to make Datamars "a true adversary." Opp. at 22. But when parties still dispute a federal claim on the merits and damages are at stake, there is Article III jurisdiction, regardless of the amount in controversy. A court would not dismiss a complaint pleading a federal claim as "moot" because the plaintiff's damages claim was too small, even if the defendant failed to answer. It should not do so now simply because other claims have dropped out of the case.

So there is no reason to deny or dismiss the petition for lack of Article III jurisdiction. If anything, this case presents an opportunity for this Court to reaffirm its holdings in *Havens* and *Nixon*—another reason to grant *certiorari*.

What is more, Datamars's absence is not a prudential reason to deny *certiorari*. Allflex's participation ensures all issues will receive thorough adversarial presentation and that Avid will not be "litigating by itself." Opp. at 15, 25. Allflex has explained its strong interest in defending the judgment. Opp. at 1-2. It has been a determined opponent, filing briefs in the district court, Federal Circuit, and this Court. *Id.* Allflex would certainly attempt to file a merits brief and speak at oral argument for affirmance if this Court granted *certiorari*, and Avid would have no objection to it doing so.

D. At a Minimum, This Court Should GVR for Reconsideration After *Therasense*.

Allflex offers no good reason why this Court should not, at a minimum, GVR this case so the Federal Circuit can reconsider its decision in light of the forthcoming *en banc* decision in *Therasense*. Allflex has no answer for the fact that this Court has previously used the GVR mechanism to return cases to a Court of Appeals when an intervening *en banc* decision from that Circuit may change the result. Pet. at 32-33. Judge Newman thought *Therasense* might change the result in this case because it will address the second question presented by this petition. (App. 33a-37a.) That warrants at least a GVR here.

Allflex dismisses Judge Newman's views because the jury's verdict the patent is not invalid was never reviewed by a judge. Opp. at 24. But that is because Datamars never filed a post-trial motion on validity, even before the settlement. Anyway, the validity finding cannot be suspect because it was arrived at in the manner protected by the Seventh Amendment. Allflex also ignores that Judge Newman's dissent rested not just on the jury verdict but her own determination that Avid's prior products were not "material" under the Patent Office's own regulations. (App. 37a.)

Allflex never addresses the unfairness that would result if this case does not receive the equal treatment that *Therasense*, which is simultaneously pending, receives. Preventing such unfairness is precisely the purpose of the GVR procedure. A GVR is particularly appropriate here given the collateral consequences of the judgment. The inequitable conduct finding has prevented Avid from asserting its otherwise valid patent against Allflex in the pending

California litigation and has even subjected Avid to a charge it violated the antitrust laws.

Allflex speculates that *Therasense* will not change the result here because Judge Linn and Chief Judge Rader did not dissent from Avid's motion for a stay. Opp. at 24. But neither judge stated views on Avid's motion one way or the other. Those judges (or others) may have voted for a stay without publicly noting their votes, just as a member of this Court can vote in favor of *certiorari* without publicly noting it.

There would be no unnecessary burden to the Federal Circuit from a GVR. If *Therasense* would change the outcome here, any such burden is outweighed by the interest in equal treatment of similar cases. And if *Therasense* does not change the result, the Federal Circuit could reinstate its prior opinion without expending additional resources. The time it would take the Federal Circuit to decide that issue would not, as Allflex argues, allow Avid "to reap further undeserved benefits and to perpetuate uncertainty in the marketplace." Opp. at 25. Avid is obtaining no benefit from "delay" because its patent is currently unenforceable against anyone, as the California court in the Allflex litigation has expressly held. It would thus be "grievously unjust," as Judge Newman put it, not to at least GVR. (App. 34a.)

CONCLUSION

The Court should grant plenary review, or, at a minimum, GVR with instructions to further consider this case in light of *Therasense*.

Respectfully submitted,

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